

**ROCK RAPIDS MUNICIPAL UTILITIES,  
A COMPONENT UNIT OF  
THE CITY OF ROCK RAPIDS**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

*De Noble, Austin & Company PC  
Certified Public Accountants  
Rock Rapids, Iowa*

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**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Officials**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
	<b>(Before September 2013)</b>	
Stanley Knobloch	Board of Trustees Chairman	August 31, 2013
David Foltz	Board of Trustees Vice Chairman	August 31, 2017
Randal Koll	Board of Trustees Member	August 31, 2015
George Schneidermann	Board of Trustees Ex-Official Member	August 31, 2013
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoye	Utilities Manager	Indefinite
Austin, Haberkorn & Kippley	Attorneys	Indefinite

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
	<b>(Beginning September 2013)</b>	
David Foltz	Board of Trustees Chairman	August 31, 2017
Randal Koll	Board of Trustees Vice Chairman	August 31, 2015
George Schneidermann	Board of Trustees Member	August 31, 2019
Rhonda Menning	Board of Trustees Ex-Official Member	August 31, 2015
Jordan Kordahl	Board of Trustees Secretary	Indefinite
James Hoye	Utilities Manager	Indefinite
Austin, Haberkorn & Kippley	Attorneys	Indefinite



# **DE NOBLE, AUSTIN & COMPANY PC**

## **Certified Public Accountants**

### **MEMBERS**

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Private Companies Practice Section  
Iowa Society - Certified Public Accountants

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### **Independent Auditor's Report**

To the Members of the Utilities Board of Trustees:

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### **Basis for Adverse Opinions on the Business Type Activities and Each Major Proprietary Fund**

As discussed in Note (1) to Financial Statements, management has not recorded the net other postemployment benefits (OPEB) liability in the business type activities and the proprietary funds and, accordingly, has not recorded the corresponding OPEB expense. There are also no disclosures reported on the

OPEB obligation in the notes to the financial statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease fund net position of the business type activities and the proprietary funds and that certain information/data be disclosed in the Notes to Financial Statements in regards to the OPEB. The amount by which this departure would affect the liabilities, net position and expenses of the business type activities and the proprietary funds and the failure to report the required OPEB disclosures is not reasonably determinable.

#### Adverse Opinions

In our opinion, because of the significance of the matter described in the “Basis for Adverse Opinions on the Business Type Activities and Each Major Proprietary Fund” paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective financial position of the business type activities and each major proprietary fund of the Rock Rapids Municipal Utilities, a component unit of the City of Rock Rapids, Iowa, at June 30, 2014, and the respective changes in its financial position and its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

#### Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental major fund of the Rock Rapids Municipal Utilities’, a component unit of the City of Rock Rapids, Iowa, at June 30, 2014, and respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

#### Other Matters

##### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management’s Discussion and Analysis and the Budgetary Comparison Information on pages 5 through 12 and 49 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. Management has omitted the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America are required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this omitted required supplementary information.

##### *Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Rock Rapids Municipal Utilities’, a component unit of the City of Rock Rapids, Iowa, basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two fiscal years ended June 30, 2013 (which are not presented herein) and expressed dual adverse opinions/unmodified opinions on those financial statements. We expressed



dual adverse opinions for the two fiscal years ended June 30, 2013, because management did not record the net other postemployment benefits (OPEB) liability in the business type activities and each major proprietary fund and, accordingly, did not record the corresponding OPEB expense. There were also no disclosures reported on the OPEB obligation in the Notes to Financial Statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease fund net position of the business type activities and each proprietary fund and that certain information/data be disclosed in the Notes to Financial Statements in regards to the OPEB. The supplementary information included in Schedules 1 through 16 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of not recording the net OPEB liability and the corresponding expense in the business type activities and each major proprietary fund and not reporting disclosures on the net OPEB obligation in the Notes to Financial Statements for the fiscal year ended June 30, 2014, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

#### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2015, on our consideration of the Rock Rapids Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Rock Rapids Municipal Utilities' internal control over financial reporting and compliance.

*De Noble, Austin & Company PC*

De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants

January 27, 2015

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## Management's Discussion and Analysis

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The Rock Rapids Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- The Utilities' governmental and business type activities total net position increased 1.8% during the fiscal year ended June 30, 2014. The total net position increased from \$15,912,249 to \$16,199,062 a \$286,813 increase. The governmental activities net position increased by \$265 and the business type activities increased by \$286,548.
- The Utilities' business type activities total revenues/special item/extraordinary items increased 7.3% during the fiscal year ended June 30, 2014. The total revenues/special item/extraordinary items increased from \$4,663,741 to \$5,006,120, a \$342,379 increase. The increase was primarily the result of an increase in the water and gas utilities charges for services. These increases were partially offset by getting less FEMA (ice storm/flooding) than what was received in the prior fiscal year.
- The Utilities' business type activities total expenses increased 19.4% during the fiscal year ended June 30, 2014. The total expenses increased from \$3,952,792 to \$4,719,572, a \$766,780 increase. While all of the utilities had an increase in operational expenses during the fiscal year, the water and gas utilities had the biggest variances.
- The change in net position for the fiscal year ended June 30, 2014 for each individual Enterprise Fund was as follows:

Electric Utility	\$ 84,659
Water Utility	99,656
Sewer Utility	15,175
Gas Utility	87,058
Total	<u>\$ 286,548</u>

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

The Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utilities' financial activities.

The "Government-Wide Financial Statements" consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the Utilities as a whole and present an overall view of the Utilities' finances.



The “Fund Financial Statements” report the Utilities’ operations in more detail than the Government-Wide Financial Statements by providing information about each of the funds.

The “Notes to Financial Statements” provide additional information essential to a full understanding of the data provided in the basic financial statements.

The “Required Supplementary Information” further explains and supports the financial statements with a comparison of the Utilities’ budget for the year.

The “Supplementary Information” provides detailed comparison information for each Utility by comparing the fiscal year ended June 30, 2014, to the fiscal years ended June 30, 2013 and 2012.

## **REPORTING THE UTILITIES’ FINANCIAL ACTIVITIES**

### **Government-Wide Financial Statements**

One of the most important questions asked about the Utilities’ finances is, “Is the Utilities as a whole better or worse off as a result of the year’s activities?” The Statement of Net Position and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year’s revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Position presents financial information on all of the Utilities’ assets, any deferred outflows of resources, liabilities and any deferred inflows of resources, with the difference reported as “net position”. Over time, increases or decreases in the Utilities’ net position may serve as a useful indicator of whether the financial position of the Utilities is improving or deteriorating.

The Statement of Activities presents information showing how the Utilities’ net position changed during the most recent fiscal year. All changes in net position are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal years.

The Statement of Net Position and the Statement of Activities report two kinds of activities:

- Governmental activities include economic development through the Revolving Loan Fund.
- Business type activities include the Electric, Water, Sewer and Gas Utility departments. These activities are financed primarily by user charges.

### **Fund Financial Statements**

The Utilities has two kinds of funds:

- (1) The Utilities has a Governmental (Special Revenue) Fund to account for a revolving loan program that was originally established through \$300,000 in funding provided by a “Rural Economic Development Grant” and a \$60,000 matching contribution from the Gas Utility Fund. This fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be

converted to cash. The Governmental Fund financial statements provide a detailed, short-term view of the Utilities' governmental operation and the basic service it is providing. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Utilities' revolving loan program.

The required financial statements for the Governmental Fund include a Balance Sheet and a Statement of Revenues, Expenditures and Change in Fund Balance.

- (2) Proprietary Funds are used to account for the Utilities' Enterprise Funds. These funds report services for which the Utilities charges customers for the service it provides. Proprietary Funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activities. The major difference between the Proprietary Funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the Proprietary Fund statements. The Enterprise Funds include the Electric, Water, Sewer and Gas Funds, each considered to be a major fund of the Utilities. The Utilities is responsible for ensuring the assets reported in these funds are used only for intended purposes and by those to whom the assets belong.

The financial statements required for the Proprietary Funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net position for the governmental and business type activities from a year ago.

	Governmental Activities		Business Type Activities	
	Net Position at Year End		Net Position at Year End	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current Assets	\$ 138,393	\$ 102,128	\$ 4,897,153	\$ 5,014,454
Restricted Cash	0	0	75,235	68,727
Capital Assets (Net)	0	0	11,015,459	10,526,770
Other Assets	222,000	258,000	266,553	272,553
Total Assets	360,393	360,128	16,254,400	15,882,504
Current Liabilities				
(Payable from Current Assets)	0	0	323,801	241,012
Current Liabilities				
(Payable from Restricted Assets)	0	0	57,153	55,209
Long-Term Liabilities	0	0	34,777	34,162
Total Liabilities	0	0	415,731	330,383
Net Position:				
Net Investment in Capital Assets	0	0	11,015,459	10,526,770
Restricted	360,393	360,128	18,082	13,518
Unrestricted	0	0	4,805,128	5,011,833
Total Net Position	\$ 360,393	\$ 360,128	\$ 15,838,669	\$ 15,552,121

The largest portion of the Utilities' business type activities net position is the net investment in capital assets (land, utility plant, transportation equipment, office equipment, tools and safety devices, communication equipment, meter testing equipment, intangibles and construction work in progress) (69.6% of the business type activities net position total for fiscal year ended June 30, 2014). For fiscal years ended June 30, 2014 and June 30, 2013, there is no capital assets related external debt. Restricted net position represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used (100% of the net position total for governmental activities and 0.1% of the net position total for business type activities for fiscal year ended June 30, 2014). Unrestricted net position is the component of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements (30.3% of the net position total for business type activities for fiscal year ended June 30, 2014).

	Governmental Activities		Business Type Activities	
	Change in Net Position		Change in Net Position	
	For the Year Ended		For the Year Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues:				
Program Revenues:				
Charges for Services	\$ 0	\$ 0	\$ 4,771,476	\$ 4,208,124
Restricted Operating Interest	265	128	0	0
Operating Proceeds	0	0	13,848	3,356
Capital Contributions	0	0	9,100	0
General Revenues:				
Gain on Disposal of Capital Assets	0	0	8,706	17,150
Rentals	0	0	6,880	6,880
Customer Penalties/Credit Card	0	0	3,276	2,721
Interest Income	0	0	97,151	93,188
Miscellaneous Income	0	0	0	53
Insurance Settlement	0	0	0	5,702
Construction Support Payment	0	0	3,048	3,176
Total Revenues	265	128	4,913,485	4,340,350
Program Expenses:				
Electric	0	0	2,241,470	2,154,204
Water	0	0	680,430	549,218
Sewer	0	0	293,623	251,670
Gas	0	0	1,504,049	984,979
Total Expenses	0	0	4,719,572	3,940,071
Special Items:				
Energy Eff. & Conserv. Block	0	0	0	15,509
Hazard Mitigation Grant				
Program	0	0	1,588	32,782
Free Community Service				
(Related Party)	0	0	0	( 12,721)
Total Special Items	0	0	1,588	35,570

**Extraordinary Items:**

FEMA Disaster Grant (Ice Storm)	0	0	33,437	275,100
FEMA Disaster Grant (Flooding)	0	0	57,610	0
Total Extraordinary Items	0	0	91,047	275,100
Increase in Net Position	265	128	286,548	710,949
Net Position Beginning of Year	360,128	360,000	15,552,121	14,841,172
Net Position End of Year	\$ 360,393	\$ 360,128	\$ 15,838,669	\$ 15,552,121

The "Increase in Net Position" from fiscal year ended June 30, 2014, compared to June 30, 2013, was higher by \$137, a 107.0% increase, in the governmental activities and lower by \$(424,401), a (59.7%) decrease, in the business type activities. The Utilities total net position (governmental activities and business type activities) increased 1.8% during the fiscal year ended June 30, 2014. The "Increase in Net Position" was up in the governmental activities due to the increase in interest income. The primary reason the amount of "Increase in Net Position" in the business type activities was lower than last year was the cost of utilities operations program expenses increased by \$779,501, while corresponding charges for services for the utilities only increased by \$563,352, also, FEMA Disaster Grant proceeds dropped by \$184,053.

**INDIVIDUAL MAJOR FUND ANALYSIS****Revolving Loan Fund (Special Revenue)**

The Revolving Loan Fund was established by a \$60,000 transfer from the Gas Utility Fund and a \$300,000 "Rural Economic Development Grant". The initial \$360,000 was loaned to help in the funding of building a commercial spec building that was sold on contract to a local businessman. The contract and collateral were assigned to the Utilities. As this contract is repaid (\$36,000/year repayment), the Utilities will have money available that can be loaned to area businesses for new endeavors, to maintain retention or for expansion.

**Operating Revenues (Utility Funds)**

Electric operating revenues were \$2,268,581, down \$15,123 or (.7%) from the previous fiscal year. The decreased revenues were the result of decreased commercial usage.

Water operating revenues were \$749,703, up \$71,013 or 10.5% from the previous fiscal year, due mainly to an increase in sales to Lyon and Sioux Rural Water System, Inc.

Sewer operating revenues were \$261,834, up \$19,516 or 8.1% from the previous fiscal year, due mainly to an increase in sewer rates during the fiscal year.

Gas operating revenues were \$1,491,358, up \$487,946 or 48.6% from the previous fiscal year, due mainly to an increase in the volume of commodity sales sold.



## **Operating Expenses (Utility Funds)**

Electric operating expenses were \$2,126,293, up \$99,791 or 4.9% from last fiscal year, due primarily to an increase in purchased power costs and generator expenses.

Water operating expenses were \$608,368, up \$117,725 or 24.0% from last fiscal year, due primarily to an increase in purchased water from Lewis & Clark Regional Water System, Inc. and an increase in distribution system repairs.

Sewer operating expenses were \$285,949, up \$42,302 or 17.4% from last fiscal year, due primarily to an increase in processing expenses as a result of the flooding in June 2014.

Gas operating expenses were \$1,493,883, up \$524,230 or 54.1% from last fiscal year, due primarily to an increase in the volume of commodity purchases.

## **Net Position (Utility Funds)**

The Electric Fund, which accounts for the operation and maintenance of the electric system, ended fiscal year 2014 with a \$6,738,358 net position balance compared to the prior year ending net position balance of \$6,653,699 (\$84,659 increase or 1.3%). The fiscal year '12/'13 change was \$475,424 or 7.7%. The change in net position was less than last fiscal year due partially to the change in operating expenses being higher than the change in operating revenues, but mainly due to a reduction of \$279,152 in grant revenue (\$230,861 in FEMA Disaster Grants).

The Water Fund, which accounts for the operation and maintenance of the water system, ended fiscal year 2014 with a \$3,157,395 net position balance compared to the prior year ending net position balance of \$3,057,739 (\$99,656 increase or 3.3%). The prior fiscal year change was an increase of \$139,847 or 4.8%. The change in net position was less than last fiscal year due to operating expenses increasing more than corresponding operating revenues.

The Sewer Fund, which accounts for the operation and maintenance of the sewer system, ended fiscal year 2014 with a \$1,071,308 net position balance compared to the prior year ending net position balance of \$1,056,133 (\$15,175 increase or 1.4%). The prior fiscal year change was a decrease of \$9,173 or 0.9%. The primary reason for the net position increase was the recognition of \$36,472 in FEMA Disaster Grant revenue (reported as an extraordinary item) due to the June 2014 flooding which helped to offset the increase in operating expenses.

The Gas Fund, which accounts for the operation and maintenance of the gas system, ended fiscal year 2014 with a \$4,871,608 net position balance compared to the prior year ending net position balance of \$4,784,550 (\$87,058 increase or 1.8%). The prior fiscal year change was an increase of \$104,851 or 2.2%. Overall, the changes are comparable between the two fiscal years.

## **BUDGETARY HIGHLIGHTS**

During fiscal year ended June 30, 2014, the Rock Rapids Municipal Utilities did not amend its budget.

Actual receipts came in \$595,656 in excess of the adopted budget. Use of money and property came in \$112,101 over budget, intergovernmental revenues came in \$8,536 over budget, charges for service came in \$355,899 over budget and miscellaneous receipts came in \$119,120 over budget. The breakdown of the charges for service by Utility is as follows: the Electric Fund receipts came in \$61,867 over budget, the Water Fund came in \$29,572 over budget, the Sewer Fund came in \$10,374 over budget and the Gas Fund came in \$254,086 over budget. Other financing sources came in \$8,706 over the adopted budget. This contributed to an extent in the business type activities function being exceeded for the fiscal year ended June 30, 2014.

Disbursements came in \$465,224 in excess of the adopted amended budget. The Electric Fund came in \$100,828 over budget, the Water Fund came in \$431,844 over budget, the Sewer Fund came in \$34,471 over budget, the Gas Fund came in \$258,081 over budget and the Revolving Loan Fund came in \$360,000 under budget.

The Utilities budgets on the cash basis but maintains its records on an accrual basis; therefore, accurate cash basis budgeting is a challenge for the Utilities.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

Please see Note (8) to Financial Statements for more information about the Utilities' capital assets and related depreciation. The major additions during the fiscal year were for utility plant and a 10 watt transmitter locator (Electric Fund). Utility plant additions during the fiscal year included for Electric (roof improvements, line improvements, and generator), Water (Dove line project, water tower painting,), Sewer (sewer blower-20hp, treatment plant improvements, SCADA hydraulic pump) and Gas (line improvements).

Construction in progress at June 30, 2014, consists primarily of an electric substation project, a generator emission upgrade testing project, a Lewis & Clark water tower project, a downtown sidewalk project, waste water basin project, a gas feasibility study, and various June 2014 flood restoration projects.

### **Long-Term Debt**

The Utilities did not have any external long-term debt outstanding at June 30, 2014. Please see Note (3) for internal long-term loans made from the Gas Fund to the Water and Sewer Funds.

## **ECONOMIC FACTORS**

The Electric Utility is expected to see an upward pressure on electric purchased costs while incurring a leveling of electric demand by its customers. Successful energy efficient programs have caused the use by our customers to level off. Rock Rapids Municipal Utilities' supplemental provider plans on increasing its rates in the coming year due to construction of new energy sources.

The Water Utility will implement a water rate increase in fiscal year '14/'15 to help fund system improvements and to acquire water source expansion. The extra source of water allows increased sales

to Lyon and Sioux Rural Water System, Inc., (the Water Utility's largest customer). The Utilities is looking at additional opportunities that would require long-term debt financing in the coming year if the decision is made to move forward.

The Sewer Utility operations implemented a rate increase in fiscal year '13/'14 that was used to finance daily operations. The investment in infrastructure in the near future, which is suspected to be supplemented in part by a FEMA grant, may put pressure to raise the sewer rates once again.

The Gas Utility is expected to see base rates remain flat in the coming year. The Gas Utility will look for opportunities to spread its variable costs across additional sales.

The Revolving Loan Fund will collect payments on its outstanding loan until it has enough cash available to consider additional lending opportunities. The Utilities looks to expand this program in the coming year as it continues to foster economic development in its service territory.

## **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and entities we have dealings with a general overview of the Utilities' finances and activities. If you have questions about this report or need additional financial information, contact Jim Hoye, General Manager, 310 S. 3<sup>rd</sup> St., Rock Rapids, Iowa.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids  
Basic Financial Statements**



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Exhibit A**

**Statement of Net Position**

**June 30, 2014**

	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total</b>
<b><u>Assets</u></b>			
<b>Current Assets:</b>			
Cash	\$ 102,393	854,814	957,207
Certificate of Deposit (Cash Equivalent)	0	100,000	100,000
Certificates of Deposit	0	3,200,000	3,200,000
Accounts Receivable	0	346,838	346,838
Due From Other Governments (Related Party)	0	17,041	17,041
Due From Other Governments	0	81,071	81,071
Interest Receivable	0	10,123	10,123
Note Receivable - Rock Rapids Development Corporation	0	6,000	6,000
Note Receivable - Rock Rapids Business	36,000	0	36,000
Inventory	0	211,489	211,489
Prepaid Expenses	0	69,777	69,777
<b>Total Current Assets</b>	<b>138,393</b>	<b>4,897,153</b>	<b>5,035,546</b>
<b>Restricted Cash:</b>			
Customer Deposits	0	57,153	57,153
Depreciation Reserves	0	18,082	18,082
<b>Total Restricted Cash</b>	<b>0</b>	<b>75,235</b>	<b>75,235</b>
<b>Capital Assets:</b>			
Land	0	179,087	179,087
Utility Plant	0	18,762,926	18,762,926
Transportation Equipment	0	298,873	298,873
Office Equipment	0	36,536	36,536
Tools and Safety Devices	0	239,826	239,826
Communication Equipment	0	6,949	6,949
Meter Testing Equipment	0	21,903	21,903
Intangibles	0	1,087,634	1,087,634
Total Capital Assets (Before W.I.P.)	0	20,633,734	20,633,734
Less: Accumulated Depreciation/Amortization	0	(10,130,721)	(10,130,721)
Capital Assets – Net (Before W.I.P.)	0	10,503,013	10,503,013
Construction Work in Progress	0	512,446	512,446
<b>Net Capital Assets</b>	<b>0</b>	<b>11,015,459</b>	<b>11,015,459</b>
<b>Other Assets:</b>			
Notes Receivable - Rock Rapids Development Corporation	0	191,553	191,553
Note Receivable - Rock Rapids Business	222,000	0	222,000
Note Receivable - Housing Development Incentive Program	0	75,000	75,000
<b>Total Other Assets</b>	<b>222,000</b>	<b>266,553</b>	<b>488,553</b>
<b>Total Assets</b>	<b>360,393</b>	<b>16,254,400</b>	<b>16,614,793</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Exhibit A (Continued)**

**Statement of Net Position**

**June 30, 2014**

	<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
<b><u>Liabilities</u></b>			
<b>Current Liabilities (Payable From Current Assets):</b>			
Accounts Payable	0	126,124	126,124
Due to Other Governments (Related Party)	0	27,605	27,605
Due to Other Governments	0	4,082	4,082
Construction Contracts Payable	0	71,275	71,275
Accrued Vacation/Comp Time Pay	0	65,144	65,144
Flex Spending Plan Payable	0	502	502
Accrued Payroll & Payroll Liabilities	0	20,636	20,636
Unearned Revenue	0	8,433	8,433
<b>Total Current Liabilities (Payable From Current Assets)</b>	<b>0</b>	<b>323,801</b>	<b>323,801</b>
<b>Liabilities Payable From Restricted Cash:</b>			
Customer Deposits	0	57,153	57,153
<b>Long -Term Liabilites:</b>			
Accrued Sick Leave Pay	0	34,777	34,777
<b>Total Liabilities</b>	<b>0</b>	<b>415,731</b>	<b>415,731</b>
<b><u>Net Position</u></b>			
Net Investment in Capital Assets	0	11,015,459	11,015,459
Restricted for:			
Loans to Businesses	360,393	0	360,393
Depreciation Reserves	0	18,082	18,082
Unrestricted	0	4,805,128	4,805,128
<b>Total Net Position</b>	<b>\$ 360,393</b>	<b>15,838,669</b>	<b>16,199,062</b>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities**  
**A Component Unit of the City of Rock Rapids**

**Statement of Activities**

**For The Fiscal Year Ended June 30, 2014**

	Program Revenues		
	Charges for	Operating Grants,	Capital Grants,
Expenses	Services	Contributions and	Contributions and
		Restricted Interest	Restricted Interest
<b>Functions/Programs:</b>			
<b>Governmental Activities:</b>			
Revolving Loans	\$ 0	265	0
<b>Business Type Activities:</b>			
Electric Utility	2,241,470	0	0
Water Utility	680,430	13,848	9,100
Sewer Utility	293,623	0	0
Gas Utility	1,504,049	0	0
Total Business Type Activities	4,719,572	13,848	9,100
<b>Totals - Rock Rapids</b>			
<b>Municipal Utilities</b>	<u>\$ 4,719,572</u>	<u>14,113</u>	<u>9,100</u>
<b>General Revenues:</b>			
Gain on Disposal of Capital Assets			
Rentals			
Rentals (Related Party)			
Customer Penalties/Credit Card Fees			
Interest Income			
Interest Income (Water, Sewer Funds)			
Construction Support Payment			
<b>Total General Revenues</b>			
<b>Special Item:</b>			
Hazard Mitigation Grant Program			
<b>Extraordinary Items:</b>			
FEMA Disaster Grant (Ice Storm)			
FEMA Disaster Grant (Flooding)			
<b>Total Extraordinary Items</b>			
<b>Change in Net Position After Special Item</b>			
<b>and Extraordinary Items</b>			
<b>Net Position Beginning of Year</b>			
<b>Net Position End of Year</b>			

See Notes to Financial Statements.

**Exhibit B**

<b><u>Net (Expense) Revenue and Changes in Net Position</u></b>		
<b><u>Governmental Activities</u></b>	<b><u>Business Type Activities</u></b>	<b><u>Total</u></b>
<u>\$ 265</u>	<u>0</u>	<u>265</u>
0	27,111	27,111
0	92,221	92,221
0	(31,789)	(31,789)
<u>0</u>	<u>(12,691)</u>	<u>(12,691)</u>
<u>0</u>	<u>74,852</u>	<u>74,852</u>
<u>\$ 265</u>	<u>74,852</u>	<u>75,117</u>
0	8,706	8,706
0	1,880	1,880
0	5,000	5,000
0	3,276	3,276
0	29,861	29,861
0	67,290	67,290
<u>0</u>	<u>3,048</u>	<u>3,048</u>
<u>0</u>	<u>119,061</u>	<u>119,061</u>
<u>0</u>	<u>1,588</u>	<u>1,588</u>
0	33,437	33,437
<u>0</u>	<u>57,610</u>	<u>57,610</u>
<u>0</u>	<u>91,047</u>	<u>91,047</u>
265	286,548	286,813
<u>360,128</u>	<u>15,552,121</u>	<u>15,912,249</u>
<u>\$ 360,393</u>	<u>15,838,669</u>	<u>16,199,062</u>



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Balance Sheet  
Governmental Fund**

**June 30, 2014**

	<u><b>Special Revenue Revolving Loan</b></u>
<b><u>Assets</u></b>	
<b>Current Assets:</b>	
Cash	\$ 102,393
Note Receivable - Rock Rapids Business	<u>36,000</u>
<b>Total Current Assets</b>	138,393
<b>Other Asset:</b>	
Note Receivable - Rock Rapids Business	<u>222,000</u>
<b>Total Assets</b>	<u><u>\$ 360,393</u></u>
<b><u>Fund Balance:</u></b>	
Restricted For:	
Loans to Businesses	<u>\$ 360,393</u>
<b>Total Fund Balance</b>	<u><u>\$ 360,393</u></u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenditures and Change in Fund Balance  
Governmental Fund**

**For the Fiscal Year Ended June 30, 2014**

	<u>Special Revenue</u> <u>Revolving</u> <u>Loan</u>
<b>Revenues:</b>	
Interest Income	\$ 265
<b>Expenditures:</b>	
None	<u>0</u>
<b>Net Change in Fund Balance</b>	265
<b>Fund Balance Beginning of Year</b>	<u>360,128</u>
<b>Fund Balance End of Year</b>	<u><u>\$ 360,393</u></u>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Statement of Net Position  
Proprietary Funds**

**June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b><u>Assets</u></b>					
<b>Current Assets:</b>					
Cash	\$ 262,719	182,293	125,082	284,720	854,814
Certificate of Deposit (Cash Equivalent)	0	0	0	100,000	100,000
Certificates of Deposit	1,250,000	0	0	1,950,000	3,200,000
Accounts Receivable	154,043	83,607	28,250	80,938	346,838
Due From Other Utility Funds	0	0	0	118,290	118,290
Due From Other Governments (Related Party)	13,788	685	579	1,989	17,041
Due From Other Governments	24,025	7,458	38,710	10,878	81,071
Interest Receivable	1,810	0	0	8,313	10,123
Note Receivable-Rock Rapids Development Corp.	0	0	0	6,000	6,000
Inventory	134,062	32,856	0	44,571	211,489
Prepaid Expenses	26,404	17,659	16,203	9,511	69,777
<b>Total Current Assets</b>	<b>1,866,851</b>	<b>324,558</b>	<b>208,824</b>	<b>2,615,210</b>	<b>5,015,443</b>
<b>Restricted Cash:</b>					
Customer Deposits	24,858	7,330	0	24,965	57,153
Depreciation Reserves	0	0	18,082	0	18,082
<b>Total Restricted Cash</b>	<b>24,858</b>	<b>7,330</b>	<b>18,082</b>	<b>24,965</b>	<b>75,235</b>
<b>Capital Assets:</b>					
Land	46,913	118,311	0	13,863	179,087
Utility Plant	9,449,043	5,824,948	2,379,503	1,109,432	18,762,926
Transportation Equipment	160,443	29,951	18,530	89,949	298,873
Office Equipment	22,969	3,594	1,797	8,176	36,536
Tools and Safety Devices	130,528	23,505	12,696	73,097	239,826
Communication Equipment	5,943	1,006	0	0	6,949
Meter Testing Equipment	16,235	5,668	0	0	21,903
Intangibles	11,990	1,060,299	3,355	11,990	1,087,634
<b>Total Capital Assets (Before W.I.P.)</b>	<b>9,844,064</b>	<b>7,067,282</b>	<b>2,415,881</b>	<b>1,306,507</b>	<b>20,633,734</b>
<b>Less: Accumulated Depreciation/Amortization</b>	<b>(5,252,388)</b>	<b>(2,697,648)</b>	<b>(1,493,634)</b>	<b>(687,051)</b>	<b>(10,130,721)</b>
<b>Capital Assets – Net (Before W.I.P.)</b>	<b>4,591,676</b>	<b>4,369,634</b>	<b>922,247</b>	<b>619,456</b>	<b>10,503,013</b>
Construction Work in Progress	435,702	38,792	2,718	35,234	512,446
<b>Net Capital Assets</b>	<b>5,027,378</b>	<b>4,408,426</b>	<b>924,965</b>	<b>654,690</b>	<b>11,015,459</b>

**Exhibit E (Continued)****Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids****Statement of Net Position  
Proprietary Funds****June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b>Other Assets:</b>					
Advances To Other Utility Funds	0	0	0	1,439,961	1,439,961
Note Receivable - Rock Rapids Development Corporation	0	0	0	191,553	191,553
Note Receivable - Housing Development Incentive Program	15,283	0	0	59,717	75,000
<b>Total Other Assets</b>	<b>15,283</b>	<b>0</b>	<b>0</b>	<b>1,691,231</b>	<b>1,706,514</b>
<b>Total Assets</b>	<b>6,934,370</b>	<b>4,740,314</b>	<b>1,151,871</b>	<b>4,986,096</b>	<b>17,812,651</b>
<b><u>Liabilities</u></b>					
<b>Current Liabilities (Payable From Current Assets):</b>					
Accounts Payable	51,339	25,598	29,091	20,096	126,124
Due To Other Utility Funds	0	100,517	17,773	0	118,290
Due To Other Governments (Related Party)	175	100	50	27,280	27,605
Due To Other Governments	2,737	812	167	366	4,082
Construction Contracts Payable	71,275	0	0	0	71,275
Accrued Vacation/Comp Time Pay	25,257	12,867	9,182	17,838	65,144
Flex Spending Plan Payable	502	0	0	0	502
Accrued Payroll & Payroll Liabilities	7,025	4,031	4,785	4,795	20,636
Unearned Revenue	173	0	0	8,260	8,433
<b>Total Current Liabilities (Payable From Current Assets)</b>	<b>158,483</b>	<b>143,925</b>	<b>61,048</b>	<b>78,635</b>	<b>442,091</b>
<b>Liabilities Payable From Restricted Cash:</b>					
Customer Deposits	24,858	7,330	0	24,965	57,153
<b>Long -Term Liabilites:</b>					
Accrued Sick Leave Pay	12,671	5,598	5,620	10,888	34,777
Advances From Other Utility Fund	0	1,426,066	13,895	0	1,439,961
<b>Total Long-Term Liabilities</b>	<b>12,671</b>	<b>1,431,664</b>	<b>19,515</b>	<b>10,888</b>	<b>1,474,738</b>
<b>Total Liabilities</b>	<b>196,012</b>	<b>1,582,919</b>	<b>80,563</b>	<b>114,488</b>	<b>1,973,982</b>
<b><u>Net Position</u></b>					
Net Investment in Capital Assets	5,027,378	2,896,975	893,297	654,690	9,472,340
Restricted for:					
Depreciation Reserves	0	0	18,082	0	18,082
Unrestricted	1,710,980	260,420	159,929	4,216,918	6,348,247
<b>Total Net Position</b>	<b>\$ 6,738,358</b>	<b>3,157,395</b>	<b>1,071,308</b>	<b>4,871,608</b>	<b>15,838,669</b>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds**

**For the Fiscal Year Ended June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b>Operating Revenues:</b>					
Residential Sales	\$1,152,996	0	0	891,648	2,044,644
Commercial Sales	1,063,181	0	0	594,330	1,657,511
Public Street and Highway Lighting	14,473	0	0	0	14,473
Wind Power – Residential and Commercial	456	0	0	0	456
Water Sales – Metered	0	318,056	0	0	318,056
Water Sales – Rural Water System	0	423,052	0	0	423,052
Water Sales – Tank Loads	0	1,804	0	0	1,804
Sewer Service	0	0	260,654	0	260,654
Material and Service Sales	30,806	1,734	0	0	32,540
Service Income	2,537	2,696	0	1,248	6,481
Service Income (Related Party)	4,132	2,361	1,180	4,132	11,805
<b>Total Operating Revenues</b>	<b>2,268,581</b>	<b>749,703</b>	<b>261,834</b>	<b>1,491,358</b>	<b>4,771,476</b>
<b>Operating Expenses:</b>					
Production/Processing Expense	1,439,709	242,034	151,563	1,122,245	2,955,551
Distribution Expense	202,070	93,254	0	104,365	399,689
Accounting and Collecting	26,676	14,975	7,923	30,439	80,013
Administrative and General	200,753	103,909	60,941	167,383	532,986
Transportation	6,284	3,126	5,787	3,153	18,350
Depreciation	213,516	131,964	45,724	41,853	433,057
Payroll Taxes	37,285	19,106	14,011	24,445	94,847
<b>Total Operating Expenses</b>	<b>2,126,293</b>	<b>608,368</b>	<b>285,949</b>	<b>1,493,883</b>	<b>4,514,493</b>
<b>Operating Income (Loss)</b>	<b>142,288</b>	<b>141,335</b>	<b>(24,115)</b>	<b>(2,525)</b>	<b>256,983</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Statement of Revenues, Expenses and Changes in Fund Net Position  
Proprietary Funds**

**For the Fiscal Year Ended June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b>Nonoperating Revenues (Expenses):</b>					
Gain on Disposal of Capital Assets	0	0	8,706	0	8,706
Rentals	0	1,880	0	0	1,880
Rentals (Related Party)	5,000	0	0	0	5,000
Customer Penalties/Credit Card Fees	1,730	227	198	1,121	3,276
Interest Income	6,579	2,416	0	20,866	29,861
Interest Income (Water, Sewer Funds)	0	0	0	67,290	67,290
Insurance Proceeds (Flooding)	0	13,848	0	0	13,848
Donations (Water Tower Mural)	0	9,100	0	0	9,100
Construction Support Payment	0	0	0	3,048	3,048
Free Community Service (Related Party)	(107,736)	(6,726)	(5,720)	0	(120,182)
Free Community Service	(7,277)	0	0	(10,000)	(17,277)
Interest Expense	(164)	0	0	(166)	(330)
Interest Expense (Gas Fund)	0	(65,336)	(1,954)	0	(67,290)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(101,868)</b>	<b>(44,591)</b>	<b>1,230</b>	<b>82,159</b>	<b>(63,070)</b>
<b>Change in Net Position Before Special Item and Extraordinary Items</b>	<b>40,420</b>	<b>96,744</b>	<b>(22,885)</b>	<b>79,634</b>	<b>193,913</b>
<b>Special Item:</b>					
Hazard Mitigation Grant Program	0	0	1,588	0	1,588
<b>Extraordinary Items:</b>					
FEMA Disaster Grant (Ice Storm)	33,437	0	0	0	33,437
FEMA Disaster Grant (Flooding)	10,802	2,912	36,472	7,424	57,610
<b>Total Extraordinary Items</b>	<b>44,239</b>	<b>2,912</b>	<b>36,472</b>	<b>7,424</b>	<b>91,047</b>
<b>Change in Net Position After Special Item and Extraordinary Items</b>	<b>84,659</b>	<b>99,656</b>	<b>15,175</b>	<b>87,058</b>	<b>286,548</b>
<b>Net Position Beginning of Year</b>	<b>6,653,699</b>	<b>3,057,739</b>	<b>1,056,133</b>	<b>4,784,550</b>	<b>15,552,121</b>
<b>Net Position End of Year</b>	<b>\$6,738,358</b>	<b>3,157,395</b>	<b>1,071,308</b>	<b>4,871,608</b>	<b>15,838,669</b>

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Exhibit G**

**Statement of Cash Flows  
Proprietary Funds**

**For the Fiscal Year Ended June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b>Cash Flows From Operating Activities:</b>					
Cash Received from Customers and Users	\$2,186,813	724,488	253,252	1,442,426	4,606,979
Cash Received from Interfund Services Provided	62,035	1,126	402	7,867	71,430
Cash Received from Other Revenues	6,429	15,748	0	3,543	25,720
Cash Paid to Suppliers/Outside Service Providers	(1,585,310)	(291,582)	(74,438)	(1,225,279)	(3,176,609)
Cash Paid for Personal Services (Employees)	(314,071)	(161,979)	(109,336)	(221,992)	(807,378)
Cash Paid for Interfund Services Used	(8,259)	(34,117)	(27,852)	(1,202)	(71,430)
Cash Paid for Free Community Service (Related Party)	(107,736)	(6,726)	(5,720)	0	(120,182)
Cash Paid for Free Community Service	(7,277)	0	0	0	(7,277)
<b>Net Cash Provided By Operating Activities</b>	<b>232,624</b>	<b>246,958</b>	<b>36,308</b>	<b>5,363</b>	<b>521,253</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Proceeds from Interfund Loan from the Gas Utility	0	450,000	0	0	450,000
Principal Payments on Interfund Loan from the Gas Utility	0	(250,943)	(16,946)	0	(267,889)
Interest Paid on Interfund Loan from the Gas Utility	0	(65,966)	(1,954)	0	(67,920)
Donations (Water Tower Mural)	0	9,100	0	0	9,100
Proceeds from Sale of Capital Assets	0	0	8,706	0	8,706
Purchases/Construction of Capital Assets	(265,725)	(529,642)	(57,821)	(38,038)	(891,226)
Extraordinary Item: FEMA Disaster Grant (Ice Storm)	308,536	0	0	0	308,536
<b>Net Cash Provided By (Used For) Capital and Related Financing Activities</b>	<b>42,811</b>	<b>(387,451)</b>	<b>(68,015)</b>	<b>(38,038)</b>	<b>(450,693)</b>
<b>Cash Flows From Investing Activities:</b>					
Issuance of Interfund Loan to the Water Utility	0	0	0	(450,000)	(450,000)
Principal Received on Interfund Loans	0	0	0	267,889	267,889
Interest Received on Interfund Loans	0	0	0	67,920	67,920
Cashed In (Purchase of) Non Cash Equivalent Certificates of Deposit (Net)	(675,000)	0	0	175,000	(500,000)
Interest Received	7,063	5,925	0	20,774	33,762
Customer Penalties/Credit Card Fees Received	1,730	227	198	1,121	3,276
Loan Payment on the Rock Rapids Development Corporation Notes Receivable	0	0	0	6,000	6,000
Loan Repaid by Lyon & Sioux Rural Water System, Inc.	0	160,972	0	0	160,972
<b>Net Cash Provided By (Used For) Investing Activities</b>	<b>(666,207)</b>	<b>167,124</b>	<b>198</b>	<b>88,704</b>	<b>(410,181)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(390,772)</b>	<b>26,631</b>	<b>(31,509)</b>	<b>56,029</b>	<b>(339,621)</b>
<b>Cash and Cash Equivalents Beginning of Year</b>	<b>678,349</b>	<b>162,992</b>	<b>174,673</b>	<b>353,656</b>	<b>1,369,670</b>
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 287,577</b>	<b>189,623</b>	<b>143,164</b>	<b>409,685</b>	<b>1,030,049</b>

**Noncash Financing and Investing Activities:**

During the fiscal year ended June 30, 2014, the Utilities forgave \$10,000 of principal on the "Notes Receivable - Housing Development Incentive Program" asset as the requirements stated in the established program were achieved on this portion of the notes. The \$10,000 was forgiven through the Gas Utility Fund and expensed in the Free Community Service account.

See Notes to Financial Statements.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Exhibit G (Continued)**

**Statement of Cash Flows  
Proprietary Funds**

**For the Fiscal Year Ended June 30, 2014**

	<b>Enterprise Funds</b>				
	<b>Electric Utility</b>	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Gas Utility</b>	<b>Total</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</b>					
Operating Income (Loss)	\$ 142,288	141,335	(24,115)	(2,525)	256,983
<b>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities:</b>					
Depreciation	213,516	131,964	45,724	41,853	433,057
Proceeds from Rentals	0	1,880	0	0	1,880
Proceeds from Rentals (Related Party)	5,000	0	0	0	5,000
Proceeds from Insurance (Flooding)	0	13,848	0	0	13,848
Proceeds from Construction Support Payment	0	0	0	3,048	3,048
Free Community Service (Related Party)	(107,736)	(6,726)	(5,720)	0	(120,182)
Free Community Service	(7,277)	0	0	0	(7,277)
Deposit Interest Paid	(164)	0	0	(166)	(330)
<b>Changes in Assets and Liabilities:</b>					
(Increase) in Accounts Receivable	(15,765)	(24,024)	(8,241)	(16,154)	(64,184)
Decrease in Due From Other Utility Funds (Non Notes Receivable Related)	5,472	60	36	145	5,713
Decrease (Increase) in Due From Other Governments (Related Party)	(9,663)	276	349	(468)	(9,506)
Decrease (Increase) in Due From Other Governments (Non Grants Related)	75	(3,820)	42	(2,116)	(5,819)
(Increase) in Inventory	(32,364)	(7,217)	0	(5,715)	(45,296)
Decrease (Increase) in Prepaid Expenses	2,452	366	(438)	2,824	5,204
Increase in Customer Deposits (Cash)	1,429	20	0	495	1,944
Increase in Accounts Payable (Non Capital Assets Related)	40,390	149	27,161	3,694	71,394
(Decrease) in Due to Other Utility Funds	(197)	(2,893)	(2,524)	(100)	(5,714)
Increase in Due to Other Governments (Related Party)	0	0	0	8,557	8,557
(Decrease) in Due to Other Governments	(10,908)	(1,029)	(106)	(632)	(12,675)
Increase in Accrued Vacation/Comp Time Pay	5,354	1,232	1,344	1,204	9,134
(Decrease) in Flex Spending Payable	(710)	0	0	0	(710)
Increase in Accrued Payroll & Payroll Liabilities	970	1,577	2,669	1,440	6,656
Increase (Decrease) in Unearned Revenue	173	0	0	(30,260)	(30,087)
Increase (Decrease) in Accrued Sick Leave Pay	289	(40)	127	239	615
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 232,624</b>	<b>246,958</b>	<b>36,308</b>	<b>5,363</b>	<b>521,253</b>
<b>Reconciliation of Cash and Cash Equivalents at Year End to Specific Assets Included on the Statement of Net Position:</b>					
<b>Current Assets:</b>					
Cash	\$ 262,719	182,293	125,082	284,720	854,814
Certificate of Deposit (Cash Equivalent)	0	0	0	100,000	100,000
<b>Restricted Cash :</b>					
Customer Deposits (Cash)	24,858	7,330	0	24,965	57,153
Depreciation Reserves (Cash)	0	0	18,082	0	18,082
<b>Cash and Cash Equivalents at Year End</b>	<b>\$ 287,577</b>	<b>189,623</b>	<b>143,164</b>	<b>409,685</b>	<b>1,030,049</b>



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Notes to Financial Statements**

**June 30, 2014**

**(1) Summary of Significant Accounting Policies**

The Rock Rapids Municipal Utilities is a component unit (as determined by criteria specified by the Governmental Accounting Standards Board) of the City of Rock Rapids, which is a political subdivision of the State of Iowa located in Lyon County, Iowa and operates under the Home Rule provisions of the Constitution of Iowa. The Rock Rapids Municipal Utilities provides electric, water, sewer, and gas utilities and related services to its customers. The Utilities has also established a Revolving Loan Fund to assist in the financing of approved rural economic development projects. The Rock Rapids Municipal Utilities is established and operated in accordance with Chapter 388 of the Code of Iowa. The Utilities is governed by a three-member Board of Trustees appointed by the Mayor and approved by the City Council, which exercises oversight responsibility under the criteria of the Code of Iowa.

The financial statements of the Rock Rapids Municipal Utilities have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board except that management has not recorded the net other postemployment benefits (OPEB) liability and the corresponding OPEB expense in the business type activities and each major proprietary (enterprise) fund. There are also no disclosures reported on the OPEB obligation in the Notes to Financial Statements.

The Rock Rapids Municipal Utilities operates a single-employer retiree benefit plan which provides medical/prescription drug benefits through a plan with the Sanford Health Plan (the plan was formerly with United Healthcare). Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and OPEB liability/expense. Accounting principles generally accepted in the United States of America require that this net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net assets of the business type activities and the proprietary funds. Required disclosures to be in conformity with accounting principles generally accepted in the United States of America that are omitted for this implicit rate subsidy include the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress, and actuarial methods and assumptions.

Management has also decided to omit the Schedule of Funding Progress for the Retiree Health Plan that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, the Rock Rapids Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Rock Rapids Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

As previously noted, the Rock Rapids Municipal Utilities is a component unit of the City of Rock Rapids. While the Rock Rapids Municipal Utilities is considered legally separate from the City, there is a financial benefit/burden relationship between the City and the Utilities, and a relationship such that exclusion would cause the City of Rock Rapids' financial statements to be misleading or incomplete. The City of Rock Rapids appoints the Utilities' governing body as already disclosed.

The Rock Rapids Municipal Utilities made contributions to the City of Rock Rapids in the amount of \$120,182 (reported as Free Community Service – Related Party) for the fiscal year ended June 30, 2014. The Electric Fund contributed \$107,736; the Water Fund contributed \$6,726; and the Sewer Fund contributed \$5,720. The City of Rock Rapids paid \$5,000 to the Electric Fund of the Rock Rapids Municipal Utilities for rent (reported as "Rentals-Related Party") and \$11,805 (\$4,132 to the Electric Fund; \$2,361 to the Water Fund; \$1,180 to the Sewer Fund; and \$4,132 to the Gas Fund) for garbage/recycling billing and collection services (reported as Service Income-Related Party). The City of Rock Rapids also pays the Utilities for utility services and both entities charge each other for any occasional labor and materials provided to each other (these costs have not been presented separately in the financial statements).

Joint Ventures – The Utilities is a participant in joint ventures that provide goods and/or services to the Utilities. There is ongoing financial interest and responsibility by the Utilities and other participating members, which is reflected through the price each joint venture charges to provide the goods and/or services to the Utilities and other participating members. The Utilities has this ongoing financial interest and responsibility as a member of the Missouri River Energy Services and the Lewis & Clark Regional Water System, Inc. The Utilities paid the Missouri River Energy Services \$1,276,950 for electrical power and energy services, \$2,528 for dues and \$100 for meeting registrations. The Utilities received \$9,333 from the Missouri River Energy Services as a reimbursement for electrical capacity generation fees and generator costs and \$10,385 as a reimbursement for costs related to the "Bright Energy Solutions Program." The Utilities purchased water from Lewis & Clark Regional Water System, Inc. in the amount of \$155,509 and paid \$5,810 for lobbying charges for fiscal year ended June 30, 2014. Financial information on each joint venture entity is not included with the Utilities'

financial statements. In order to obtain financial information and financial statements on each joint venture entity, to determine whether each joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or burden on the Utilities, please contact the Utilities Manager at the Utilities office.

## B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all activities of the Utilities. The effect of interfund activity has been removed from these statements, except for interfund service billings and interest charged for interfund loans. Governmental activities, which are supported by intergovernmental revenues and interest earnings, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the Utilities' assets, deferred outflows of resources (as applicable), liabilities and deferred inflows of resources (as applicable), with the difference reported as net position. Net position is reported in the following three categories:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation/amortization (there is no external debt for which the Utilities has to reduce the net capital assets).

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the two preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function/program are offset by program revenues. Direct expenses are those clearly identifiable with a specific function/program. Program revenues can include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function/program and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function/program. Unrestricted interest and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major governmental fund:

Special Revenue:

The Revolving Loan Fund is to be used to account for all funds derived from an “USDA-Rural Economic Development Grant” agreement between the Utilities and Rural Development, through the Rural Business – Cooperative Service. This Revolving Loan Fund is to be used to assist in the financing, through the form of a loan, of approved rural economic development projects. The Revolving Loan Fund is meant to attract, retain and/or expand business that would generate public benefits to the citizens of Rock Rapids and the surrounding area.

The Utilities reports the following major proprietary funds (the Utilities considers all the proprietary funds to be major):

Enterprise:

The Electric Utility Fund is used to account for the operation and maintenance of the Utilities’ electric system.

The Water Utility Fund is used to account for the operation and maintenance of the Utilities’ water system.

The Sewer Utility Fund is used to account for the operation and maintenance of the Utilities’ sanitary sewer system.

The Gas Utility Fund is used to account for the operation and maintenance of the Utilities’ gas system.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Utilities considers revenues to be available if they are collected within 60 days after year end.

Intergovernmental revenues (grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Utilities.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments are recognized as expenditures only when payment is due, as applicable. Proceeds of general long-term debt are reported as other financing sources, as applicable.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the Utilities' policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Under terms of some grant agreements, the Utilities may fund certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net positions available to finance the qualifying programs. It is the Utilities' policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities' Enterprise Funds are charges to customers for sales and services. The principal operating expenses for Enterprise Funds include the cost of sales and services (production/processing costs), distribution costs, accounting/collecting costs, administrative expenses, transportation related expenses, and depreciation/amortization on capital assets and payroll taxes. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses, including rental income, customer penalties/credit card fees, insurance proceeds, interest income, a construction support payment, gain on disposal of capital assets, donations received and given, and interest expense.

The Utilities maintains its financial records on the accrual basis of accounting.

#### D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the financial statements:

Cash, Certificate of Deposit (Cash Equivalent) and Certificates of Deposit – The cash balances of most of the Utilities funds are pooled and invested. Interest earned on investments is allocated to the appropriate fund. Investments on June 30, 2014, consist of non-negotiable certificates of deposit which are stated at cost.

For purposes of the Statement of Cash Flows, all short-term investments that are highly liquid (including restricted cash) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2014 included all but one of the certificates of deposit (the Gas Fund had a \$100,000 Certificate of Deposit on June 30, 2014, which met the requirements to be a cash equivalent).

Accounts Receivable – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Accounts receivable represents money owed to the Utilities, primarily for utility sales, which were not paid to the Utilities as of June 30, 2014.

Due from and Due to Other Utility Funds/Advances to and Advances from Other Utility Funds – During the course of its operations, the Utilities has numerous transactions between utility funds and the Utilities Board of Trustees has also approved some interfund loans between utility funds. To the extent certain transactions and the loans between funds had not been paid or received as of June 30, 2014, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due from Other Governments (Related Party) – Due from other governments (related party) represents amounts due from the City of Rock Rapids for charges for sales and services provided.

Due from Other Governments – Due from other governments represents amounts due from other governments for charges for sales and services provided; eligible costs that have been incurred for the FEMA Disaster Grant (flooding) and the Hazard Mitigation Grant Program ; and an amount due from the State of Iowa for overpayment of sales tax.

Inventory – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed or sold rather than when purchased.

Prepaid Expenses – Prepaid expenses represents insurance premiums and other expense payments that will benefit a future fiscal year. Prepayments are recorded as expenses when utilized rather than when paid for.

Restricted Cash – Funds set aside for deposits held by the Utilities (customer deposits restricted for application to unpaid customer accounts or for refund to customers) and per Federal EPA requirements (depreciation reserves - provide cash for repair and replacement of equipment, including the eventual replacement of the entire wastewater treatment plant).

Capital Assets – Capital assets, which include land; utility system buildings, lines, related equipment improvements; transportation equipment; office equipment; tools and safety devices; communication equipment; meter testing equipment; and intangibles are reported in the business type activities column in the government-wide Statement of Net Position and in the appropriate Enterprise Fund column in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets acquired prior to July 1, 2004, are defined by the Utilities as assets with initial, individual costs in excess of \$500 and estimated useful lives in excess of two years. Reportable capital assets acquired after June 30, 2004, are defined by the Utilities as assets with initial,

individual costs in excess of the following thresholds and have estimated useful lives in excess of two years.

Asset Class	Amount
Land, Utility Plant	\$10,000
Equipment, Tools and Safety Devices	\$ 5,000
Intangibles	\$20,000

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Utility Plant	5 – 50 years
Transportation Equipment	5 years
Office Equipment	5 – 10 years
Tools and Safety Devices	5 – 10 years
Communication Equipment	5 – 10 years
Meter Testing Equipment	5 – 7 years
Intangibles	5 – 50 years

Construction projects that have not been completed as of June 30, 2014, are reported as “Construction Work in Progress” on the Statement of Net Position.

Accounts Payable and Construction Contracts Payable – Accounts payable represent amounts owed for services performed or purchases made by June 30, 2014, but not paid as of June 30, 2014. Construction contracts payable represent amounts owed to contractors for work completed by June 30, 2014, on contracts, but the contractors have not been paid as of June 30, 2014.

Due to Other Governments (Related Party)/Due to Other Governments – These accounts represent state sales and use taxes, garbage and recycling collections, and payments for services and reimbursements that are due to be remitted to other governments and the City of Rock Rapids as of June 30, 2014.

Accrued Vacation/Comp Time Pay – The Utilities’ personnel policy provides full-time employees with vacation pay and one employee with comp time pay in varying amounts. Vacation/comp time expenses for employees are charged to operations when earned by the employees in the Government-Wide and Proprietary Funds financial statements. At termination, an employee is paid for accumulated vacation/comp time. The amount recorded in the accounts for vacation/comp time pay aggregated to \$65,144 at June 30, 2014, (computed based on rates of pay in effect at June 30, 2014). This liability has been presented as a current liability in the financial statements as this liability is expected to be paid within a year.

Accrued Sick Leave Pay – The Utilities’ personnel policy provides full-time employees with sick leave in varying amounts. Sick leave pay expenses for non-vested employees are charged to operations when taken by the employee. Sick leave pay expenses for

vested employees are charged to operations when earned by the employee in the Government-Wide and Proprietary Funds financial statements.

An employee who has been employed by the Utilities for over ten years, but less than fifteen years, and terminates employment due to retirement or death is entitled to 15% of unused accumulated allowable sick leave benefits. An employee who has been employed by the Utilities for over fifteen years and terminates employment for any reason, other than dismissal, is entitled to 15% of accumulated allowable sick leave. As of June 30, 2014, employees' vested sick leave benefits aggregated \$34,777 (computed based on rates of pay in effect at June 30, 2014).

A summary of changes in accrued sick pay for fiscal year '13/'14 is as follows:

Balance Beginning of Year	\$ 34,162
Increases	4,824
Decreases	( 4,209)
Balance End of Year	<u>\$ 34,777</u>

This liability is recorded in the Government-Wide and Proprietary Fund financial statements as a long-term liability as this liability is not expected to be payable within a year.

Unearned Revenue – Amounts received on customer accounts before being billed are recorded in the “unearned revenue” account. Revenue is reported in the period in which it is realized or realizable and earned; therefore, when payments on accounts are received in advance of being earned, the amount applicable to future periods is deferred to future periods. The amount unearned is considered a liability because it represents an obligation to perform a service in the future arising from a past transaction.

Fund Balance: Restricted – In the Governmental Fund financial statement, restricted fund balance is reported for:

Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation. The amount in the Revolving Loan Fund is to be used for low interest loans to qualifying businesses.

Net Position: Restricted – In the Proprietary Fund financial statements, restricted net position is reported for amounts legally restricted by outside parties for use for a specific purpose. The amount of net position restricted at June 30, 2014 is computed as follows:

	Electric Utility Fund	Water Utility Fund	Sewer Utility Fund	Gas Utility Fund	Total
Total Restricted Cash	\$ 24,858	7,330	18,082	24,965	75,235
Deposits Payable	(24,858)	(7,330)	0	(24,965)	(57,153)
Net Assets: Restricted (June 30, 2014)	<u>\$ 0</u>	<u>0</u>	<u>18,082</u>	<u>0</u>	<u>18,082</u>



The restricted net assets in the Sewer Utility Fund are for required depreciation reserves per Federal EPA requirements.

Net Position: Net Investment in Capital Assets – The “Net Investment in Capital Assets” is reported in the Government-Wide Statement of Net Position as \$11,015,459 and the “Net Investment in Capital Assets” in the Proprietary Funds Statement of Net Position as \$9,472,340. The \$1,543,119 difference is due to the removal of the capital related debt (debt attributable to the acquisition, construction or improvement of capital assets) owed by the Sewer Utility to the Gas Utility and Water Utility to the Gas Utility. The effects of these interfund loans were removed from the Government-Wide Statement of Net Position as only external debt is reflected/affects the “Net Investment in Capital Assets”.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. . The budgetary comparison is prepared by making memorandum adjusting entries to the accrual basis financial records to convert the records to the cash basis (the basis upon which the adopted budget is prepared). The Rock Rapids Municipal Utilities did not have the City of Rock Rapids amend its portion of the original adopted budget for fiscal year ended June 30, 2014. As a result, actual disbursements during the fiscal year ended June 30, 2014, exceeded the adopted budget in the business type activities function.

#### **(2) Cash and Investments (Certificates of Deposit)**

The Utilities’ deposits in banks at June 30, 2014, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute and its written investment policy to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utilities Board; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

The Utilities had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No 3, as amended by Statement No. 40.

Board Designated Reserves – The Utilities Board has designated money to be set aside in Proprietary Funds as reserves for economic development, depreciation, and the Lewis & Clark Project. The money designated for these purposes is included in the unrestricted (current assets) cash balances as of June 30, 2014 as there is no legal responsibility that these amounts be used for these purposes. The amount of the Board designated reserves in Proprietary Funds on June 30, 2014, is as follows:

	Economic Development Reserves	Depreciation Reserves	Lewis & Clark Project Sinking Fund Reserve	Total
Electric Utility Fund	\$ 17,274	\$ 96,205	\$ 0	\$ 113,479
Water Utility Fund	3,357	5,000	69,504	77,861
Gas Utility Fund	19,748	0	0	19,748
Total	\$ 40,379	\$ 101,205	\$ 69,504	\$ 211,088

**(3) Due from and Due to Other Utility Funds/Advance to and Advance from Other Utility Funds**

On January 27, 2006, the Gas Utility Fund loaned \$400,000 to the Water Utility Fund to assist with the payment of Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$35,409 and final maturity date is January 27, 2022. During the fiscal year ended June 30, 2014, the Water Utility Fund paid the Gas Utility Fund \$23,992 in principal and \$11,417 in interest on this loan. The June 30, 2014 balance on this loan was \$234,286.

A summary of the annual principal and interest requirements on this loan to maturity by year(s) is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 25,052	10,357	35,409
2016	26,159	9,250	35,409
2017	27,294	8,115	35,409
2018	28,522	6,887	35,409
2019	29,783	5,626	35,409
2020-2022	97,476	8,750	106,226
Total	\$ 234,286	48,985	283,271

On March 28, 2007, the Gas Utility Fund loaned an additional \$390,257 to the Water Utility Fund to assist with the payment of additional Lewis & Clark project membership costs. The loan carries a 4.4205 annual percentage interest rate, annual payments are scheduled at \$34,548 and final maturity date is March 28, 2023. During the fiscal year ended June 30, 2014, the Water Utility Fund paid the Gas Utility Fund \$22,418 in principal and \$12,130 in interest on this loan. The June 30, 2014 balance on this loan was \$251,988.

A summary of the annual principal and interest requirements on this loan to maturity by year(s) is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 23,409	11,139	34,548
2016	24,416	10,132	34,548
2017	25,523	9,025	34,548
2018	26,651	7,897	34,548
2019	27,830	6,718	34,548
2020-2023	124,159	14,035	138,194
Total	\$ 251,988	58,946	310,934

On April 1, 2012, the Gas Utility Fund loaned an additional \$625,000 to the Water Utility Fund to assist with the payment of the gravity filter rehabilitation project costs. The loan carries a 4.33 annual percentage interest rate, annual payments are scheduled at \$47,353 and final maturity date is April 1, 2032. During the fiscal year ended June 30, 2014, the Water Utility Fund paid the Gas Utility Fund \$21,169 in principal and \$26,184 in interest on this loan. The June 30, 2014 balance on this loan was \$583,541.

A summary of the annual principal and interest requirements on this loan to maturity by year(s) is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 22,085	25,268	47,353
2016	22,975	24,378	47,353
2017	24,037	23,316	47,353
2018	25,077	22,276	47,353
2019	26,163	21,190	47,353
2020-2024	148,716	88,047	236,763
2025-2029	183,904	52,859	236,763
2030-2032	130,584	11,473	142,057
Total	\$ 583,541	268,807	852,348

On May 1, 2013, the Gas Utility Fund loaned \$175,000 to the Water Utility Fund to help in financing the Dove Avenue Project until Lyon and Sioux Rural Water System, Inc. paid for its share of this project. The loan carried a 4.42 annual percentage interest rate and the entire principal and interest was due to be repaid by December 31, 2014. During the fiscal year ended June 30, 2014, the Water Utility Fund paid the Gas Utility Fund \$175,000 in principal and \$4,959 in interest on this loan. The June 30, 2014, balance on this loan was \$0.

On November 1, 2013, the Gas Utility Fund loaned \$450,000 to the Water Utility Fund to assist with costs related to the painting of the east water tower. The loan carries a 4.33 monthly percentage interest rate, annual payments are scheduled at \$33,672 and final

maturity date is November 1, 2033. During the fiscal year ended June 30, 2014, the Water Utility Fund paid the Gas Utility Fund \$8,364 in principal and \$11,276 in interest on this loan. The June 30, 2014 balance on this loan was \$441,636.

A summary of the annual principal and interest requirements on this loan to maturity by year(s) is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 14,839	18,831	33,670
2016	15,494	18,176	33,670
2017	16,179	17,491	33,670
2018	16,893	16,777	33,670
2019	17,639	16,031	33,670
2020-2024	100,596	67,754	168,350
2025-2029	124,863	43,487	168,350
2030-2032	135,133	13,575	148,708
Total	\$ 441,636	212,122	653,758

On March 27, 2006, the Gas Utility Fund loaned \$150,000 to the Sewer Utility Fund for utility plant capital asset costs. The loan carries a 4.7754 annual percentage interest rate, monthly payments are scheduled at \$1,575 and final maturity date is March 27, 2017. During the fiscal year ended June 30, 2014, the Sewer Utility Fund paid the Gas Utility Fund \$16,946 in principal and \$1,954 in interest on this loan. The June 30, 2014, balance on this loan was \$31,668.

A summary of the annual principal and interest requirements on this loan to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 17,773	1,127	18,900
2016	13,895	280	14,175
Total	\$ 31,668	1,407	33,075

The balances in the “Due From and Due to Other Utility Funds” and “Advance To and Advance From Other Utility Funds” are for the aforementioned loans between funds, accrued interest on these loans and amounts owed for utility services provided as follows:

Assets	Receivable Utility			
	Electric	Water	Sewer	Gas
Due From/For:				
Loan (Current Portion)	\$ 0	0	0	103,158
Accrued Interest on Loans	0	0	0	15,132
Total Due From/To	0	0	0	118,290
Advances To:				
Loan (Noncurrent Portion)	0	0	0	1,439,961
Totals	\$ 0	0	0	1,558,251

Liabilities	Payable Utility			
	Electric	Water	Sewer	Gas
Due To/For:				
Loan (Current Portion)	\$ 0	85,385	17,773	0
Accrued Interest on Loans	0	15,132	0	0
Total Due From/To	0	100,517	17,773	0
Advances From:				
Loan (Noncurrent Portion)	0	1,426,066	13,895	0
Totals	\$ 0	1,526,583	31,668	0

#### **(4) Notes Receivable – Rock Rapids Development Corporation**

On September 28, 2009, the Rock Rapids Municipal Utilities loaned \$140,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of approximately 28 acres of real estate in Rock Rapids, Iowa for development purposes. This promissory draw note loan earns interest at a rate of 2.5% per annum (accrued interest is to be paid annually with interest computed through December 31<sup>st</sup> of each year) and is secured by a real estate mortgage on the 28 acres of real estate purchased through the aforementioned loan funds.

The Rock Rapids Development Corporation is to pay all principal and unpaid interest due per this promissory draw note no later than thirty days after written demand for such payment by the Rock Rapids Municipal Utilities, provided, however, that the entire amount of loan outstanding and any unpaid interest shall be paid no later than twenty years after September 28, 2010, and provided further, however, that upon the sale of any part or all of the 28 acres, the Rock Rapids Development Corporation shall repay that percentage of such net sale proceeds from the sale, which are equivalent to the percentage of acres sold from the original 28 acres purchased from the proceeds of this loan. If the Rock Rapids Development Corporation sells all 28 acres, the Rock Rapids Development Corporation shall repay the Rock Rapids Municipal Utilities all unpaid principal and interest no later than 30 days after final closing on such sale.

On June 29, 2011, the Rock Rapids Municipal Utilities loaned \$75,000 from the Gas Fund to the Rock Rapids Development Corporation to be used toward the purchase of a 5 acre parcel of real estate. This promissory draw note loan earns interest at a rate of 3.1% per annum (accrued interest is to be paid annually with interest computed through June 30<sup>th</sup> of each year) and is secured by a real estate mortgage on the 5 acre parcel of real estate noted above.

This promissory note shall be for a period of ten years with interest only payable annually. The Rock Rapids Development Corporation shall have the right to make additional principal payments at any time. However, upon the sale, gift, or transfer in any way of any part of all of the five acres, the Rock Rapids Development Corporation shall be required to pay to the Rock Rapids Municipal Utilities \$15,000 per acre transferred. The Rock Rapids Development Corporation shall pay this amount to the Rock Rapids Municipal Utilities no later than 30 days after any transfer of real estate.

In July 2011, the Rock Rapids Development Corporation sold approximately 1.717 acres of the 5 acres parcel of real estate. Based on an amendment to the agreement between the Utilities and the Rock Rapids Development Corporation, the Utilities allowed the \$25,751 in proceeds from the land sold to be paid in installments and the Rock Rapids Development Corporation agreed to continue paying 3.1 percent on any outstanding loan balance. During fiscal year '11/'12 the Utilities received \$11,447 in principal on this note and during fiscal year '13/'14, the Utilities received \$6,000 in principal on this note. The remaining note receivable balance of \$8,304 that is due, along with interest, is to be repaid as follows: \$6,000 by July 1, 2015 and \$2,304 by July 1, 2016.

During fiscal year ended June 30, 2014, the \$140,000 note receivable generated \$3,500 in interest income for the Gas Utility Fund and the original \$75,000 note receivable generated \$1,784 in interest income for the Gas Utility Fund. On June 30, 2014, the balance on the notes receivable from the Rock Rapids Development Corporation totaled \$197,553 (\$140,000 and \$57,553, respectively) with \$6,000 being reported as a "Current Asset" and \$197,553 being reported as an "Other Asset" in the Gas Utility Fund.

#### **(5) Notes Receivable – Rock Rapids Businesses**

In July 2011, the Utilities complied with all the requirements under the Rural Economic Development Grant Agreement Program in order to be awarded a grant in the amount of \$300,000, along with a \$60,000 operating transfer in from the Gas Utility Fund, to assist in the establishing of a Revolving Loan Fund (presented as a governmental-Special Revenue Fund).

The Utilities loaned from the Revolving Loan Fund \$360,000 to the Rock Rapids Community Affairs Corporation ("CAC") at a 0% interest rate. In August 2011, the CAC sold the commercial spec building to a businessman and subsequently assigned the contract and the collateral of the real estate to the Utilities. Payment on the note is based on a 0% interest rate (as awarded by the Revolving Loan Fund Program) with \$3,000/month in principal due until the loan is paid in full.

During fiscal year 2013/2014, the Utilities received 36,000 in principal payments. As of June 30, 2014, the outstanding note receivable balance was \$258,000. The amount due in fiscal year 2014/2015 of \$36,000 is being reported as a "Current Asset" and the remaining amount of \$222,000 is being reported as an "Other Asset" in the Revolving Loan Fund.

#### **(6) Note Receivable –Housing Development Incentive Program**

In April 2013, the Rock Rapids Municipal Utilities Board of Trustees approved the establishment of a "Housing Development Incentive Program." This program provides for forgivable loans in the amount of \$5,000 per platted residential lot with the program available to developers of a minimum of six lots with infrastructure (including street, storm sewer, water main, etc.). The terms of the forgivable loans are that interest is to be paid annually at the established interest rate, the Utilities will receive a second mortgage to the developer's primary lender and, if there is a balance due after 15 years from the date of the loan, the remaining balance and any accrued interest will become due immediately. The loans will be forgiven in the amount of \$5,000 per lot when a lot is sold, the deed to the purchaser is recorded and accrued interest is paid up to

the date of the recording of the deed. When 75% of the approved lots are sold and deeds are filed/recorded, accrued interest becomes due and once paid, the remaining loan balance will be forgiven.

In May 2013, the Utilities loaned a company \$65,000 and in December 2013, the Utilities loaned an entity \$55,000 as forgivable loans under this program for the development of a subdivision with 13 residential lots and another subdivision with 11 residential lots. Each loan carries a 4% interest rate with interest due annually. These loans may be forgiven in whole or in part if the requirements of the program are satisfied. Any remaining balance of the notes receivable will be due 15 years from the date of the promissory note. During the fiscal year ended June 30, 2014, \$10,000 of the notes receivable balance was forgiven by the Utilities and these notes generated \$3,049 in interest income for the Utilities. As of June 30, 2014, \$0 of these notes receivable are reported as a "Current Asset" and the remaining \$75,000 is reported as an "Other Assets". As of June 30, 2014, \$15,283 of the notes receivable balance is reported in the Electric Utility and \$59,717 is reported in the Gas Utility (\$75,000 in total).

#### **(7) Note Receivable – Lyon & Sioux Rural Water System, Inc.**

In December 2012, the Rock Rapids Municipal Utilities and the Lyon & Sioux Rural Water System, Inc. agreed to a joint project concerning the construction of approximately 3 miles of water pipeline referred to as the "Dove Avenue Line" located north of the City of Lester, Iowa. Per the joint project agreement, the Utilities was responsible for paying all the project costs with Rural Water agreeing to reimburse the Utilities for 49% of the actual costs of the project. Rural Water's 49% share of the project amounted to \$310,972. Rural Water reimbursed the Utilities for \$150,000 in project costs in December 2012. The remaining \$160,972 owed by Rural Water to the Water Utility Fund, carried an interest rate of 4.42% per annum, starting on January 1, 2013, and the entire balance was set to mature by no later than December 31, 2013. Rural Water satisfied the note receivable during the fiscal year by paying off the entire principal balance of \$160,972 on November 1, 2013, along with interest of \$5,925.

#### **(8) Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2014 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business Type Activities:</b>				
<b>Capital Assets Not Being Depreciated/Amortized:</b>				
Land	\$ 179,087	0	0	179,087
Construction Work in Progress	808,159	915,146	( 1,210,859)	512,446
Total Capital Assets Not Being Depreciated/Amortized	987,246	915,146	( 1,210,859)	691,533
<b>Capital Assets Being Depreciated/Amortized:</b>				
Utility Plant	17,552,067	1,210,859	0	18,762,926
Transportation Equipment	318,723	0	( 19,850)	298,873
Office Equipment	36,536	0	0	36,536
Tools and Safety Devices	233,226	6,600	0	239,826

Communication Equipment	6,949	0	0	6,949
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	1,087,634	0	0	1,087,634
Total Capital Assets Being Depreciated/Amortized	19,257,038	1,217,459	( 19,850)	20,454,647
Less Accumulated Depreciation/Amortization For:				
Utility Plant	9,187,168	363,830	0	9,550,998
Transportation Equipment	212,834	27,812	( 19,850)	220,796
Office Equipment	19,889	4,657	0	24,546
Tools and Safety Devices	209,197	8,877	0	218,074
Communication Equipment	6,951	0	0	6,951
Meter Testing Equipment	21,903	0	0	21,903
Intangibles	59,572	27,881	0	87,453
Total Accumulated Depreciation/Amortization	9,717,514	433,057	( 19,850)	10,130,721
Total Capital Assets Being Depreciated/Amortized, Net	9,539,524	784,402	0	10,323,926
Business Type Activities Capital Assets, Net	\$ 10,526,770	1,699,548	(1,210,859)	11,015,459

Depreciation/amortization expense was charged to the different Utilities as follows:

Business Type Activities:

Electric Utility	\$ 213,516
Water Utility	131,964
Sewer Utility	45,724
Gas Utility	41,853
Total Depreciation/Amortization Expense – Business Type Activities	<u>\$ 433,057</u>

Intangible (Lewis & Clark Project Membership); Utility Plant (Lewis & Clark Member Specific Costs)

On June 27, 2002, the Rock Rapids Municipal Utilities entered into an agreement with the Lewis and Clark Regional Water System, Inc. to become a member in Lewis & Clark Regional Water System, Inc. On December 22, 2005, the Rock Rapids Municipal Utilities entered into an amended and restated commitment agreement with the Lewis & Clark Regional Water System, Inc. In the amended and restated commitment agreement, the Utilities agreed to pay the Utilities' allocated construction percentage of the base system costs (examples: administrative, overhead, engineering, financing, debt service, legal costs and fees) and related membership/lobbying fees.

In October 2011, the Utilities began to receive water through the Lewis and Clark system as the construction of the distribution system was substantially done and water was available through the system. At that time, the Utilities reclassified the membership costs from an "Other Asset" to a "Capital Asset" by capitalizing an "intangible asset" of \$1,053,589, which represents the total amount paid toward the cost of membership, which includes base system costs and related membership/lobbying fees. The "intangible asset" is being amortized over 50 years which represents the length of time the distribution system is guaranteed to be available to its members.



If the Rock Rapids Municipal Utilities would withdraw from membership in Lewis & Clark Regional Water System, Inc., the Utilities would forfeit all amounts paid to Lewis & Clark Regional Water System, Inc., whether in the form of membership fees, construction payments or amounts placed or on deposit in the “Maintenance and Repair Fund,” the “Capital Improvement Fund” or the “Operating Reserve Fund.”

The Rock Rapids Municipal Utilities agrees to purchase a minimum of 137,500 gallons of potable, treated water per day, on average, each month at the water rates and charges set by Lewis & Clark Regional Water System, Inc. The Utilities has also agreed to pay for the design and construction of service lines plus all other member specific costs. Member specific costs that meet the capitalization policy are included in the utility plant account in the Water Utility Fund.

**(9) Due to Other Governments/Due to Other Governments – Related Party**

The Utilities purchases services from other governmental units, pays required fees to regulatory entities, remits sales and use tax to the State of Iowa, reimburses the City of Rock Rapids for expenses/project costs, and remits garbage and recycling collections to the City of Rock Rapids.

A summary of amounts due to other governments follows:

Fund	Description	Amount
Electric Utility	State Sales and Use Tax	\$ 2,737
Water Utility	State Sales and Use Tax	812
Sewer Utility	State Sales and Use Tax	167
Gas Utility	State Use Tax	366
Total		<u>\$ 4,082</u>

A summary of amounts due to other governments–related party (City of Rock Rapids) follows:

Fund	Description	Amount
Electric Utility	Legal Fees Reimbursement	\$ 175
Water Utility	Legal Fees Reimbursement	100
Sewer Utility	Legal Fees Reimbursement	50
Gas Utility	Garbage/Recycling Collections and Legal Fees Reimbursement	<u>27,280</u>
Total		<u>\$ 27,605</u>

**(10) Hazard Mitigation Grants Program - “Special Item”; FEMA Disaster Grant (Ice Storm & Flooding) – “Extraordinary Items”**

The Rock Rapids Municipal Utilities was awarded a Hazard Mitigation Grant to be used toward an approved waste water basin project in the Sewer Utility Fund. The waste water basin project was first getting started in fiscal year 2013/2014. The Hazard Mitigation Grant Program revenue amounted to \$1,588 in fiscal year 2013/2014.

The Rock Rapids Municipal Utilities was the recipient of FEMA Disaster Grant funding as the result of an April 2014 ice storm that did major damage to the Utilities 69 KV transmission lines. This grant was used for emergency repairs related to the 69 KV transmission lines in the Electric Utility Fund. For the fiscal year ended June 30, 2014, the Utilities reported \$33,437 in the Electric Utility Fund in FEMA Disaster Grant (Ice Storm) revenue. This income was reported as an extraordinary item due to the nature of this natural disaster. This grant was finalized during fiscal year 2013/2014.

The Rock Rapids Municipal Utilities was awarded as a recipient of FEMA Disaster Grant funding for costs related to severe flooding which took place in June 2014. Revenue for this grant will be recognized as costs are incurred to restore buildings, equipment, materials, etc., to pre-flood conditions. For the fiscal year ended June 30, 2014, the Utilities reported \$57,610 in FEMA Disaster Grant (Flooding) income. Due to the rarity of this extreme, devastating flood, this income is being recorded as an extraordinary item.

**(11) Major Customer**

Lyon and Sioux Rural Water System, Inc. is a major customer of the Water Utility. Water sales to Lyon and Sioux Rural Water System, Inc., amounted to \$423,052 or 56.4% of the total operating water revenues for the fiscal year ended June 30, 2014.

**(12) Pension and Retirement Benefits**

The Rock Rapids Municipal Utilities contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the Municipal Utilities is required to contribute 8.93% of covered salary. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$50,847, \$47,770 and \$43,859, respectively, equal to the required contributions for each year.

### **(13) Risk Management**

The Rock Rapids Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **(14) Employee Health Insurance Coverage**

The Rock Rapids Municipal Utilities provided group health insurance coverage for eligible employees throughout the fiscal year ended June 30, 2014. United Healthcare provided coverage up to February 28, 2014. As of March 1, 2014, the Utilities switched their group health insurance provider back to Sanford Health. Under the new Sanford Health plan, the deductible for family coverage is \$3,000, while the deductible for individual coverage is \$1,500. The Utilities agreed to pay the remaining amount of the deductible after the employee pays the first \$500 in deductible for single plans and the first \$1,000 of the deductible for family coverage.

### **(15) Commitments**

In October 2013, the Board of Trustees approved to contribute 75% of the total costs for improvements to the City of Rock Rapids ice rink at an estimated cost of \$7,350 (\$5,512 – Utilities portion). The project will be done by the Rock Rapids Fire Department. Work has not been started and payment will be made after the project is complete.

In July 2013, the Board of Trustees approved a loan to a non-profit entity for \$525,000. This loan is to carry an interest rate of 3%, due in annual payments of \$75,000 each November 1. The loan will be paid from the Gas Fund and is to assist with the financing of a new facility, which is deemed to enhance economic development within the community.

The Utilities has been approved for a \$300,000 USDA Rural Utility Services Grant. The Utilities has committed a \$60,000 match from the Gas Utility Fund when the grant is completely processed and received. The grant and match will be used to start another revolving loan program.

### **(16) Subsequent Events**

In July 2014, the Utilities issued a forgivable loan under the Housing Development Incentive Program for \$90,000 (\$5,000 per 18 lots) to a non-profit entity. The loan bears an interest rate of 4% with interest due annually. The loan will be forgiven \$5,000 for each lot sold, with accrued interest due at the time of sale and a deed to the purchaser is recorded. The remaining loan balance shall be forgiven and accrued interest becomes due once 13 lots are sold and the deeds filed. At the time of the closing of the loan, there were two lots which were already sold and therefore, the balance of the loan at that point was \$80,000.

In August 2014, the Board of Trustees paid \$100,000 from reserves set aside for economic development purposes to the City of Rock Rapids to be used for “Flood Relief Mitigation” projects.

In October 2014, the Board of Trustees approved extending a line of credit in the amount of \$1,000,000 to the Rock Rapids Area Development Foundation. This line of credit is to be paid from the Gas Fund, secured by an irrevocable letter of credit of \$1,000,000 issued by Frontier Bank in favor of the Utilities, have a specific maturity date of December 31, 2015 and carry an interest rate of 2%. The purpose of providing this funding is to help achieve the goals of the Rock Rapids Housing Initiative and related housing development projects in Rock Rapids. There have been no amounts paid to the Foundation as of the audit report date.

In October 2014, the Board approved a contract for the 2014 Flood Restoration Project for \$66,812 to be paid from the Electric Fund (\$9,070), the Sewer Fund (\$30,492), and the Water Fund (\$27,250). No work has been done on this project to date.

#### **(17) Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### **(18) Prospective Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government’s proportionate share of the employee pension plan.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Required Supplementary Information**

**Rock Rapids Municipal Utilities**  
**A Component Unit of the City of Rock Rapids**

**Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –  
Budget and Actual (Cash Basis) - Governmental Fund and Proprietary Funds**

**Required Supplementary Information**

**For the Fiscal Year Ended June 30, 2014**

	<b>Governmental Fund Actual</b>	<b>Proprietary Funds Actual</b>	<b>Total Actual</b>	<b>Adopted Budget</b>	<b>Budget to Actual Variance</b>
<b>Receipts:</b>					
Use of Money and Property	\$ 265	111,836	112,101	0	112,101
Intergovernmental	0	308,536	308,536	300,000	8,536
Charges for Service:					
Electric Utility	0	2,250,277	2,250,277	2,188,410	61,867
Water Utility	0	739,484	739,484	709,912	29,572
Sewer Utility	0	253,654	253,654	243,280	10,374
Gas Utility	0	1,450,788	1,450,788	1,196,702	254,086
Miscellaneous	36,000	179,120	215,120	96,000	119,120
<b>Total Receipts</b>	<b>36,265</b>	<b>5,293,695</b>	<b>5,329,960</b>	<b>4,734,304</b>	<b>595,656</b>
<b>Disbursements:</b>					
Business Type Activities:					
Electric Utility	0	2,288,378	2,288,378	2,187,550	(100,828)
Water Utility	0	1,090,012	1,090,012	658,168	(431,844)
Sewer Utility	0	277,121	277,121	242,650	(34,471)
Gas Utility	0	1,486,511	1,486,511	1,228,430	(258,081)
Revolving Loans to Businesses	0	0	0	360,000	360,000
<b>Total Disbursements (Business Type Activities)</b>	<b>0</b>	<b>5,142,022</b>	<b>5,142,022</b>	<b>4,676,798</b>	<b>(465,224)</b>
<b>Excess of Receipts Over Disbursements</b>	<b>36,265</b>	<b>151,673</b>	<b>187,938</b>	<b>57,506</b>	<b>130,432</b>
<b>Other Financing Sources</b>	<b>0</b>	<b>8,706</b>	<b>8,706</b>	<b>0</b>	<b>8,706</b>
<b>Excess of Receipts and Other Financing Sources Over Disbursements</b>	<b>36,265</b>	<b>160,379</b>	<b>196,644</b>	<b>57,506</b>	<b>139,138</b>
<b>Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances Beginning of Year</b>	<b>66,128</b>	<b>4,069,670</b>	<b>4,135,798</b>	<b>4,160,451</b>	<b>(24,653)</b>
<b>Cash and Certificates of Deposit (Unrestricted and Restricted) – Balances End of Year</b>	<b>\$ 102,393</b>	<b>4,230,049</b>	<b>4,332,442</b>	<b>4,217,957</b>	<b>114,485</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities  
A Component Unit of the City of Rock Rapids**

**Budget to GAAP Reconciliation**

**Required Supplementary Information**

**For the Fiscal Year Ended June 30, 2014**

	Governmental Fund			Proprietary Funds		
	Special Revenue			Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
<b>Receipts/Revenues/Special Items/Extraordinary Items</b>	\$ 36,265	(36,000)	265	5,293,695	(296,281)	4,997,414
<b>Disbursements/Expenses</b>	0	0	0	5,142,022	(422,450)	4,719,572
<b>Net</b>	36,265	(36,000)	265	151,673	126,169	277,842
<b>Other Financing Sources</b>	0	0	0	8,706	0	8,706
<b>Beginning Fund Balances/Net Position</b>	66,128	294,000	360,128	4,069,670	11,482,451	15,552,121
<b>Ending Fund Balances/Net Position</b>	\$ 102,393	258,000	360,393	4,230,049	11,608,620	15,838,669

**Rock Rapids Municipal Utilities**  
**A Component Unit of the City of Rock Rapids**

**Notes to Required Supplementary Information – Budgetary Reporting**

**For the Fiscal Year Ended June 30, 2014**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the major Special Revenue Fund and each major Proprietary (Enterprise) Fund.

In accordance with the Code of Iowa, the Utilities Board of Trustees annually approves a budget on the cash basis of accounting. The Utilities Board of Trustees submits the approved budget to the Rock Rapids City Council. The cash basis budget is adopted by the Rock Rapids City Council following required public notice and hearing for all funds. The Utilities budget is included as part of the City of Rock Rapids budget. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances and accruals are not recognized on the cash basis budget and appropriations lapse at year end.

The Utilities budgeted all its receipts under the “intergovernmental,” “charges for service” and “miscellaneous” classifications. Actual receipts primarily came from these three receipt classifications; however, the Utilities did also have receipts come from the “use of money and property” receipts classification. Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the Utilities’ Special Revenue Fund and the Enterprise Funds. All Utility disbursements are included in the business type/enterprises activities function classification on the City’s adopted budget. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the fiscal year, the Utilities did not have the City of Rock Rapids adopt any budget amendments to modify budgeted receipts or disbursements.

During the fiscal year ended June 30, 2014, disbursements in the business type/enterprise activities function exceeded the amount budgeted for the Utilities.



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Supplementary Information**

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Net Position**

	June 30,		Amount of Change	Percentage of Change
	2014	2013		
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 262,719	654,920	(392,201)	(60%)
Certificates of Deposit	1,250,000	575,000	675,000	117%
Accounts Receivable	154,043	138,278	15,765	11%
Due From Other Utility Funds	0	5,472	(5,472)	(100%)
Due From Other Governments (Related Party)	13,788	4,125	9,663	234%
Due From Other Governments	24,025	288,397	(264,372)	(92%)
Interest Receivable	1,810	2,294	(484)	(21%)
Inventory	134,062	101,698	32,364	32%
Prepaid Expenses	26,404	28,856	(2,452)	(8%)
<b>Total Current Assets</b>	<b>1,866,851</b>	<b>1,799,040</b>	<b>67,811</b>	<b>4%</b>
<b>Restricted Cash:</b>				
Customer Deposits	24,858	23,429	1,429	6%
<b>Capital Assets:</b>				
Land	46,913	46,913	0	0%
Utility Plant	9,449,043	9,121,544	327,499	4%
Transportation Equipment	160,443	160,443	0	0%
Office Equipment	22,969	22,969	0	0%
Tools and Safety Devices	130,528	123,928	6,600	5%
Communication Equipment	5,943	5,943	0	0%
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	9,844,064	9,509,965	334,099	4%
Less: Accumulated Depreciation/Amortization	(5,252,388)	(5,038,872)	(213,516)	4%
Capital Assets – Net (Before W.I.P)	4,591,676	4,471,093	120,583	3%
Construction Work in Progress	435,702	447,240	(11,538)	(3%)
<b>Net Capital Assets</b>	<b>5,027,378</b>	<b>4,918,333</b>	<b>109,045</b>	<b>2%</b>
<b>Other Assets:</b>				
Note Receivable - Housing Development Incentive Program	15,283	15,283	0	0%
<b>Total Assets</b>	<b>6,934,370</b>	<b>6,756,085</b>	<b>178,285</b>	<b>3%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Net Position**

	<b>June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	51,339	18,132	33,207	183%
Due To Other Utility Fund	0	197	(197)	(100%)
Due To Other Governments (Related Party)	175	175	0	0%
Due To Other Governments	2,737	13,645	(10,908)	(80%)
Construction Contracts Payable	71,275	7,256	64,019	882%
Accrued Vacation/Comp Time Pay	25,257	19,903	5,354	27%
Flex Spending Plan Payable	502	1,212	(710)	(59%)
Accrued Payroll & Payroll Liabilities	7,025	6,055	970	16%
Unearned Revenue	173	0	173	N/A
<b>Total Current Liabilities</b>	<b>158,483</b>	<b>66,575</b>	<b>91,908</b>	<b>138%</b>
<b>(Payable From Current Assets)</b>				
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	24,858	23,429	1,429	6%
<b>Long-Term Liability:</b>				
Accrued Sick Leave Pay	12,671	12,382	289	2%
<b>Total Liabilities</b>	<b>196,012</b>	<b>102,386</b>	<b>93,626</b>	<b>91%</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	5,027,378	4,918,333	109,045	2%
Unrestricted	1,710,980	1,735,366	(24,386)	(1%)
<b>Total Net Position</b>	<b>\$ 6,738,358</b>	<b>6,653,699</b>	<b>84,659</b>	<b>1%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Assets</u></b>				
<b>Current Assets:</b>				
Cash	\$ 262,719	184,349	78,370	43%
Certificates of Deposit	1,250,000	875,000	375,000	43%
Accounts Receivable	154,043	130,850	23,193	18%
Due From Other Governments (Related Party)	13,788	4,354	9,434	217%
Due From Other Governments	24,025	355,408	(331,383)	(93%)
Interest Receivable	1,810	3,891	(2,081)	(53%)
Flex Spending Receivable	0	3,628	(3,628)	(100%)
Inventory	134,062	73,156	60,906	83%
Prepaid Expenses	26,404	28,937	(2,533)	(9%)
<b>Total Current Assets</b>	<b>1,866,851</b>	<b>1,659,573</b>	<b>207,278</b>	<b>12%</b>
<b>Restricted Cash:</b>				
Customer Deposits	24,858	28,463	(3,605)	(13%)
<b>Capital Assets:</b>				
Land	46,913	46,913	0	0%
Utility Plant	9,449,043	8,157,889	1,291,154	16%
Transportation Equipment	160,443	178,105	(17,662)	(10%)
Office Equipment	22,969	24,958	(1,989)	(8%)
Tools and Safety Devices	130,528	126,252	4,276	3%
Communication Equipment	5,943	7,071	(1,128)	(16%)
Meter Testing Equipment	16,235	16,235	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	9,844,064	8,569,413	1,274,651	15%
Less: Accumulated Depreciation/Amortization	(5,252,388)	(4,838,305)	(414,083)	9%
Capital Assets – Net (Before W.I.P)	4,591,676	3,731,108	860,568	23%
Construction Work in Progress	435,702	885,161	(449,459)	(51%)
<b>Net Capital Assets</b>	<b>5,027,378</b>	<b>4,616,269</b>	<b>411,109</b>	<b>9%</b>
<b>Other Assets:</b>				
Note Receivable - Housing Development Incentive Program	15,283	29,717	(14,434)	(49%)
<b>Total Assets</b>	<b>6,934,370</b>	<b>6,334,022</b>	<b>600,348</b>	<b>9%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Net Position**

	<b>June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	51,339	49,501	1,838	4%
Due To Other Governments (Related Party)	175	158	17	11%
Due To Other Governments	2,737	8,802	(6,065)	(69%)
Construction Contracts Payable	71,275	28,675	42,600	149%
Accrued Vacation/Comp Time Pay	25,257	21,408	3,849	18%
Flex Spending Plan Payable	502	0	502	N/A
Accrued Payroll & Payroll Liabilities	7,025	6,623	402	6%
Unearned Revenue	173	0	173	N/A
<b>Total Current Liabilities</b>	<b>158,483</b>	<b>115,167</b>	<b>43,316</b>	<b>38%</b>
<b>(Payable From Current Assets)</b>				
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	24,858	28,463	(3,605)	(13%)
<b>Long-Term Liability:</b>				
Accrued Sick Leave Pay	12,671	12,117	554	5%
<b>Total Liabilities</b>	<b>196,012</b>	<b>155,747</b>	<b>40,265</b>	<b>26%</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	5,027,378	4,616,269	411,109	9%
Unrestricted	1,710,980	1,562,006	148,974	10%
<b>Total Net Position</b>	<b>\$ 6,738,358</b>	<b>6,178,275</b>	<b>560,083</b>	<b>9%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 3**

**Electric Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating Revenues:</b>				
Residential Sales	\$ 1,152,996	1,147,150	5,846	1%
Commercial Sales	1,063,181	1,075,043	(11,862)	(1%)
Public Street and Highway Lighting	14,473	16,193	(1,720)	(11%)
Wind Power – Residential and Commercial	456	468	(12)	(3%)
Material and Service Sales	30,806	32,513	(1,707)	(5%)
Service Income	2,537	8,205	(5,668)	(69%)
Service Income (Related Party)	4,132	4,132	0	0%
<b>Total Operating Revenues</b>	<b>2,268,581</b>	<b>2,283,704</b>	<b>(15,123)</b>	<b>(1%)</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	1,439,709	1,357,068	82,641	6%
Distribution Expense	202,070	182,734	19,336	11%
Accounting and Collecting	26,676	22,727	3,949	17%
Administrative and General	200,753	168,121	32,632	19%
Transportation	6,284	7,449	(1,165)	(16%)
Depreciation	213,516	253,076	(39,560)	(16%)
Payroll Taxes	37,285	35,327	1,958	6%
<b>Total Operating Expenses</b>	<b>2,126,293</b>	<b>2,026,502</b>	<b>99,791</b>	<b>5%</b>
<b>Operating Income</b>	<b>142,288</b>	<b>257,202</b>	<b>(114,914)</b>	<b>(45%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	0	17,150	(17,150)	(100%)
Rentals	0	1,000	(1,000)	(100%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,730	1,431	299	21%
Miscellaneous Income	0	53	(53)	(100%)
Interest Income	6,579	7,264	(685)	(9%)
Insurance Proceeds (Ice/Hail Storms)	0	3,356	(3,356)	(100%)
Free Community Service (Related Party)	(107,736)	(101,221)	(6,515)	6%
Free Community Service	(7,277)	(26,256)	18,979	(72%)
Interest Expense	(164)	(225)	61	(27%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(101,868)</b>	<b>(92,448)</b>	<b>(9,420)</b>	<b>10%</b>
<b>Change in Net Position Before Special Items and Extraordinary Items</b>	<b>40,420</b>	<b>164,754</b>	<b>(124,334)</b>	<b>(75%)</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Special Items:</b>				
Energy Efficiency and Conservation				
Block Grant	0	15,509	(15,509)	(100%)
Hazard Mitigation Grant Program	0	32,782	(32,782)	(100%)
Free Community Service (Related Party)	0	(12,721)	12,721	(100%)
<b>Total Special Items</b>	<b>0</b>	<b>35,570</b>	<b>(35,570)</b>	<b>(100%)</b>
<b>Extraordinary Items:</b>				
FEMA Disaster Grant (Ice Storm)	33,437	275,100	(241,663)	(88%)
FEMA Disaster Grant (Flooding)	10,802	0	10,802	N/A
<b>Total Extraordinary Items</b>	<b>44,239</b>	<b>275,100</b>	<b>(230,861)</b>	<b>(84%)</b>
<b>Change in Net Position After Special Items and Extraordinary Items</b>	<b>84,659</b>	<b>475,424</b>	<b>(390,765)</b>	<b>(82%)</b>
<b>Net Position Beginning of Year</b>	<b>6,653,699</b>	<b>6,178,275</b>	<b>475,424</b>	<b>8%</b>
<b>Net Position End of Year</b>	<b>\$ 6,738,358</b>	<b>6,653,699</b>	<b>84,659</b>	<b>1%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 4**

**Electric Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b>Operating Revenues:</b>				
Residential Sales	\$ 1,152,996	1,033,567	119,429	12%
Commercial Sales	1,063,181	963,114	100,067	10%
Public Street and Highway Lighting	14,473	29,035	(14,562)	(50%)
Wind Power – Residential and Commercial	456	486	(30)	(6%)
Material and Service Sales	30,806	31,348	(542)	(2%)
Service Income	2,537	3,528	(991)	(28%)
Service Income (Related Party)	4,132	4,132	0	0%
<b>Total Operating Revenues</b>	<b>2,268,581</b>	<b>2,065,210</b>	<b>203,371</b>	<b>10%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	1,439,709	1,282,513	157,196	12%
Distribution Expense	202,070	180,293	21,777	12%
Accounting and Collecting	26,676	24,928	1,748	7%
Administrative and General	200,753	179,079	21,674	12%
Transportation	6,284	5,428	856	16%
Depreciation	213,516	231,741	(18,225)	(8%)
Payroll Taxes	37,285	31,548	5,737	18%
<b>Total Operating Expenses</b>	<b>2,126,293</b>	<b>1,935,530</b>	<b>190,763</b>	<b>10%</b>
<b>Operating Income</b>	<b>142,288</b>	<b>129,680</b>	<b>12,608</b>	<b>10%</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	0	250	(250)	(100%)
Rentals	0	1,000	(1,000)	(100%)
Rentals (Related Party)	5,000	5,000	0	0%
Customer Penalties/Credit Card Fees	1,730	1,168	562	48%
Miscellaneous Income	0	281	(281)	(100%)
Interest Income	6,579	13,608	(7,029)	(52%)
Free Community Service (Related Party)	(107,736)	(100,768)	(6,968)	7%
Free Community Service	(7,277)	(8,301)	1,024	(12%)
Interest Expense	(164)	(213)	49	(23%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(101,868)</b>	<b>(87,975)</b>	<b>(13,893)</b>	<b>16%</b>
<b>Change in Net Position Before Special Items and Extraordinary Items</b>	<b>40,420</b>	<b>41,705</b>	<b>(1,285)</b>	<b>(3%)</b>



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Electric Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b>Special Items:</b>				
Energy Efficiency and Conservation				
Block Grant	0	65,219	(65,219)	(100%)
Hazard Mitigation Grant Program	0	380,720	(380,720)	(100%)
Free Community Service (Related Party)	0	(143,719)	143,719	(100%)
<b>Total Special Items</b>	<b>0</b>	<b>302,220</b>	<b>(302,220)</b>	<b>(100%)</b>
<b>Extraordinary Items:</b>				
FEMA Disaster Grant (Ice Storm)	33,437	0	33,437	N/A
FEMA Disaster Grant (Flooding)	10,802	0	10,802	N/A
<b>Total Extraordinary Items</b>	<b>44,239</b>	<b>0</b>	<b>44,239</b>	<b>N/A</b>
<b>Change in Net Position After Special Items and Extraordinary Items</b>	<b>84,659</b>	<b>343,925</b>	<b>(259,266)</b>	<b>(75%)</b>
<b>Net Position Beginning of Year</b>	<b>6,653,699</b>	<b>5,834,350</b>	<b>819,349</b>	<b>14%</b>
<b>Net Position End of Year</b>	<b>\$ 6,738,358</b>	<b>6,178,275</b>	<b>560,083</b>	<b>9%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Water Utility Fund**

**Comparative Statements of Net Position**

	June 30,			
	2014	2013	Amount of Change	Percentage of Change
<b>Assets</b>				
<b>Current Assets:</b>				
Cash	\$ 182,293	155,682	26,611	17%
Due From Other Utility Funds	0	60	(60)	(100%)
Accounts Receivable	83,607	59,583	24,024	40%
Due From Other Governments (Related Party)	685	961	(276)	(29%)
Due From Other Governments	7,458	726	6,732	927%
Interest Receivable	0	3,509	(3,509)	(100%)
Note Receivable - Lyon & Sioux Rural Water System, Inc.	0	160,972	(160,972)	(100%)
Inventory	32,856	25,639	7,217	28%
Prepaid Expenses	17,659	18,025	(366)	(2%)
<b>Total Current Assets</b>	<b>324,558</b>	<b>425,157</b>	<b>(100,599)</b>	<b>(24%)</b>
<b>Restricted Cash:</b>				
Customer Deposits	7,330	7,310	20	0%
<b>Capital Assets:</b>				
Land	118,311	118,311	0	0%
Utility Plant	5,824,948	5,074,551	750,397	15%
Transportation Equipment	29,951	29,951	0	0%
Office Equipment	3,594	3,594	0	0%
Tools and Safety Devices	23,505	23,505	0	0%
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	1,060,299	0	0%
Total Capital Assets (Before W.I.P.)	7,067,282	6,316,885	750,397	12%
Less: Accumulated Depreciation/Amortization	(2,697,648)	(2,565,684)	(131,964)	5%
Capital Assets - Net (Before W.I.P.)	4,369,634	3,751,201	618,433	16%
Construction Work in Progress	38,792	303,495	(264,703)	(87%)
<b>Net Capital Assets</b>	<b>4,408,426</b>	<b>4,054,696</b>	<b>353,730</b>	<b>9%</b>
<b>Total Assets</b>	<b>4,740,314</b>	<b>4,487,163</b>	<b>253,151</b>	<b>6%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Water Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	25,598	38,701	(13,103)	(34%)
Due To Other Utility Funds	100,517	261,233	(160,716)	(62%)
Due To Other Governments (Related Party)	100	100	0	0%
Due To Other Governments	812	1,841	(1,029)	(56%)
Construction Contracts Payable	0	30,696	(30,696)	(100%)
Accrued Vacation/Comp Time Pay	12,867	11,635	1,232	11%
Accrued Payroll & Payroll Liabilities	4,031	2,454	1,577	64%
<b>Total Current Liabilities</b>	<b>143,925</b>	<b>346,660</b>	<b>(202,735)</b>	<b>(58%)</b>
<b>(Payable From Current Assets)</b>				
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	7,330	7,310	20	0%
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	5,598	5,638	(40)	(1%)
Advances From Other Utility Fund	1,426,066	1,069,816	356,250	33%
<b>Total Long-Term Liabilities</b>	<b>1,431,664</b>	<b>1,075,454</b>	<b>356,210</b>	<b>33%</b>
<b>Total Liabilities</b>	<b>1,582,919</b>	<b>1,429,424</b>	<b>153,495</b>	<b>11%</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	2,896,975	2,917,302	(20,327)	(1%)
Unrestricted	260,420	140,437	119,983	85%
<b>Total Net Position</b>	<b>\$ 3,157,395</b>	<b>3,057,739</b>	<b>99,656</b>	<b>3%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Water Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Assets</u></b>				
<b>Current Assets:</b>				
Cash	\$ 182,293	271,700	(89,407)	(33%)
Accounts Receivable	83,607	70,675	12,932	18%
Due From Other Governments (Related Party)	685	602	83	14%
Due From Other Governments	7,458	468	6,990	1,494%
Inventory	32,856	27,340	5,516	20%
Prepaid Expenses	17,659	16,593	1,066	6%
<b>Total Current Assets</b>	<b>324,558</b>	<b>387,378</b>	<b>(62,820)</b>	<b>(16%)</b>
<b>Restricted Cash:</b>				
Customer Deposits	7,330	7,705	(375)	(5%)
<b>Capital Assets:</b>				
Land	118,311	118,311	0	0%
Utility Plant	5,824,948	4,321,286	1,503,662	35%
Transportation Equipment	29,951	29,951	0	0%
Office Equipment	3,594	6,498	(2,904)	(45%)
Tools and Safety Devices	23,505	42,316	(18,811)	(44%)
Communication Equipment	1,006	1,006	0	0%
Meter Testing Equipment	5,668	5,668	0	0%
Intangibles	1,060,299	1,060,299	0	0%
Total Capital Assets (Before W.I.P.)	7,067,282	5,585,335	1,481,947	27%
Less: Accumulated Depreciation/Amortization	(2,697,648)	(2,473,693)	(223,955)	9%
Capital Assets - Net (Before W.I.P.)	4,369,634	3,111,642	1,257,992	40%
Construction Work in Progress	38,792	721,435	(682,643)	(95%)
<b>Net Capital Assets</b>	<b>4,408,426</b>	<b>3,833,077</b>	<b>575,349</b>	<b>15%</b>
<b>Other Asset:</b>				
Note Receivable - Housing Development Incentive Program	0	5,567	(5,567)	(100%)
<b>Total Assets</b>	<b>4,740,314</b>	<b>4,233,727</b>	<b>506,587</b>	<b>12%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Water Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	25,598	29,014	(3,416)	(12%)
Due To Other Utility Funds	100,517	80,062	20,455	26%
Due To Other Governments (Related Party)	100	9,387	(9,287)	(99%)
Due To Other Governments	812	1,790	(978)	(55%)
Construction Contracts Payable	0	30,922	(30,922)	(100%)
Accrued Vacation/Comp Time Pay	12,867	11,154	1,713	15%
Accrued Payroll & Payroll Liabilities	4,031	2,885	1,146	40%
<b>Total Current Liabilities</b>	<b>143,925</b>	<b>165,214</b>	<b>(21,289)</b>	<b>(13%)</b>
<b>(Payable From Current Assets)</b>				
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	7,330	7,705	(375)	(5%)
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	5,598	5,522	76	1%
Advances From Other Utility Fund	1,426,066	1,137,394	288,672	25%
<b>Total Long-Term Liabilities</b>	<b>1,431,664</b>	<b>1,142,916</b>	<b>288,748</b>	<b>25%</b>
<b>Total Liabilities</b>	<b>1,582,919</b>	<b>1,315,835</b>	<b>267,084</b>	<b>20%</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	2,896,975	2,630,981	265,994	10%
Unrestricted	260,420	286,911	(26,491)	(9%)
<b>Total Net Position</b>	<b>\$ 3,157,395</b>	<b>2,917,892</b>	<b>239,503</b>	<b>8%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 7**

**Water Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating Revenues:</b>				
Water Sales – Metered	\$ 318,056	300,109	17,947	6%
Water Sales – Rural Water System	423,052	351,384	71,668	20%
Water Sales – Tank Loads	1,804	3,954	(2,150)	(54%)
Material and Service Sales	1,734	20,489	(18,755)	(92%)
Service Income	2,696	393	2,303	586%
Service Income (Related Party)	2,361	2,361	0	0%
<b>Total Operating Revenues</b>	<b>749,703</b>	<b>678,690</b>	<b>71,013</b>	<b>10%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	242,034	176,413	65,621	37%
Distribution Expense	93,254	61,848	31,406	51%
Accounting and Collecting	14,975	13,437	1,538	11%
Administrative and General	103,909	101,473	2,436	2%
Transportation	3,126	2,905	221	8%
Depreciation	131,964	116,988	14,976	13%
Payroll Taxes	19,106	17,579	1,527	9%
<b>Total Operating Expenses</b>	<b>608,368</b>	<b>490,643</b>	<b>117,725</b>	<b>24%</b>
<b>Operating Income</b>	<b>141,335</b>	<b>188,047</b>	<b>(46,712)</b>	<b>(25%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Rentals	1,880	880	1,000	114%
Customer Penalties	227	199	28	14%
Interest Income	2,416	3,594	(1,178)	(33%)
Insurance Proceeds (Flooding)	13,848	0	13,848	N/A
Insurance Settlement	0	5,702	(5,702)	(100%)
Donations (Water Tower Mural)	9,100	0	9,100	N/A
Free Community Service (Related Party)	(6,726)	0	(6,726)	N/A
Free Community Service	0	(5,566)	5,566	(100%)
Interest Expense (Gas Fund)	(65,336)	(53,009)	(12,327)	23%
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(44,591)</b>	<b>(48,200)</b>	<b>3,609</b>	<b>(7%)</b>
<b>Change in Net Position Before Extraordinary Item</b>	<b>96,744</b>	<b>139,847</b>	<b>(43,103)</b>	<b>(31%)</b>
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	2,912	0	2,912	N/A
<b>Change in Net Position After Extraordinary Item</b>	<b>99,656</b>	<b>139,847</b>	<b>(40,191)</b>	<b>(29%)</b>
<b>Net Position Beginning of Year</b>	<b>3,057,739</b>	<b>2,917,892</b>	<b>139,847</b>	<b>5%</b>
<b>Net Position End of Year</b>	<b>\$ 3,157,395</b>	<b>3,057,739</b>	<b>99,656</b>	<b>3%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 8**

**Water Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b>Operating Revenues:</b>				
Water Sales – Metered	318,056	259,542	58,514	23%
Water Sales – Rural Water System	423,052	245,754	177,298	72%
Water Sales – Tank Loads	1,804	614	1,190	194%
Material and Service Sales	1,734	29,289	(27,555)	(94%)
Service Income	2,696	577	2,119	367%
Service Income (Related Party)	2,361	2,361	0	0%
<b>Total Operating Revenues</b>	<b>749,703</b>	<b>538,137</b>	<b>211,566</b>	<b>39%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	242,034	152,297	89,737	59%
Distribution Expense	93,254	85,038	8,216	10%
Accounting and Collecting	14,975	14,927	48	0%
Administrative and General	103,909	104,999	(1,090)	(1%)
Transportation	3,126	1,662	1,464	88%
Depreciation	131,964	104,935	27,029	26%
Payroll Taxes	19,106	16,718	2,388	14%
<b>Total Operating Expenses</b>	<b>608,368</b>	<b>480,576</b>	<b>127,792</b>	<b>27%</b>
<b>Operating Income</b>	<b>141,335</b>	<b>57,561</b>	<b>83,774</b>	<b>146%</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	0	250	(250)	(100%)
Rentals	1,880	880	1,000	114%
Customer Penalties	227	226	1	0%
Interest Income	2,416	0	2,416	N/A
Insurance Proceeds (Flooding)	13,848	0	13,848	N/A
Donations (Water Tower Mural)	9,100	0	9,100	N/A
Free Community Service (Related Party)	(6,726)	0	(6,726)	N/A
Interest Expense (Gas Fund)	(65,336)	(33,532)	(31,804)	95%
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(44,591)</b>	<b>(32,176)</b>	<b>(12,415)</b>	<b>39%</b>
<b>Change in Net Position Before Extraordinary Item</b>	<b>96,744</b>	<b>25,385</b>	<b>71,359</b>	<b>281%</b>
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	2,912	0	2,912	N/A
<b>Change in Net Position After Extraordinary Item</b>	<b>99,656</b>	<b>25,385</b>	<b>74,271</b>	<b>293%</b>
<b>Net Position Beginning of Year</b>	<b>3,057,739</b>	<b>2,892,507</b>	<b>165,232</b>	<b>6%</b>
<b>Net Position End of Year</b>	<b>\$ 3,157,395</b>	<b>2,917,892</b>	<b>239,503</b>	<b>8%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Sewer Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b><u>Assets</u></b>				
<b>Current Assets:</b>				
Cash	\$ 125,082	161,155	(36,073)	(22%)
Accounts Receivable	28,250	20,009	8,241	41%
Due From Other Utility Funds	0	36	(36)	(100%)
Due From Other Governments (Related Party)	579	928	(349)	(38%)
Due From Other Governments	38,710	692	38,018	5,494%
Prepaid Expenses	16,203	15,765	438	3%
<b>Total Current Assets</b>	<b>208,824</b>	<b>198,585</b>	<b>10,239</b>	<b>5%</b>
<b>Restricted Cash:</b>				
Depreciation Reserves	18,082	13,518	4,564	34%
<b>Capital Assets:</b>				
Utility Plant	2,379,503	2,265,053	114,450	5%
Transportation Equipment	18,530	38,380	(19,850)	(52%)
Office Equipment	1,797	1,797	0	0%
Tools and Safety Devices	12,696	12,696	0	0%
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,415,881	2,321,281	94,600	4%
Less: Accumulated Depreciation/Amortization	(1,493,634)	(1,467,760)	(25,874)	2%
Capital Assets - Net (Before W.I.P.)	922,247	853,521	68,726	8%
Construction Work in Progress	2,718	57,424	(54,706)	(95%)
<b>Net Capital Assets</b>	<b>924,965</b>	<b>910,945</b>	<b>14,020</b>	<b>2%</b>
<b>Total Assets</b>	<b>1,151,871</b>	<b>1,123,048</b>	<b>28,823</b>	<b>3%</b>



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Sewer Utility Fund**

**Comparative Statements of Net Position**

	<b>June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	29,091	7	29,084	415,486%
Due to Other Utility Funds	17,773	19,469	(1,696)	(9%)
Due To Other Governments (Related Party)	50	50	0	0%
Due To Other Governments	167	273	(106)	(39%)
Accrued Vacation/Comp Time Pay	9,182	7,838	1,344	17%
Accrued Payroll & Payroll Liabilities	4,785	2,116	2,669	126%
<b>Total Current Liabilities</b>	<b>61,048</b>	<b>29,753</b>	<b>31,295</b>	<b>105%</b>
<b>(Payable From Current Assets)</b>				
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	5,620	5,493	127	2%
Advance From Other Utility Fund	13,895	31,669	(17,774)	(56%)
<b>Total Long-Term Liabilities</b>	<b>19,515</b>	<b>37,162</b>	<b>(17,647)</b>	<b>(47%)</b>
<b>Total Liabilities</b>	<b>80,563</b>	<b>66,915</b>	<b>13,648</b>	<b>20%</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	893,297	862,331	30,966	4%
Restricted for:				
Depreciation Reserves	18,082	13,518	4,564	34%
Unrestricted	159,929	180,284	(20,355)	(11%)
<b>Total Net Position</b>	<b>\$ 1,071,308</b>	<b>1,056,133</b>	<b>15,175</b>	<b>1%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Sewer Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Assets</u></b>				
<b>Current Assets:</b>				
Cash	\$ 125,082	167,843	(42,761)	(25%)
Accounts Receivable	28,250	18,084	10,166	56%
Due From Other Governments (Related Party)	579	506	73	14%
Due From Other Governments	38,710	444	38,266	8,618%
Prepaid Expenses	16,203	13,823	2,380	17%
<b>Total Current Assets</b>	<b>208,824</b>	<b>200,700</b>	<b>8,124</b>	<b>4%</b>
<b>Restricted Cash:</b>				
Depreciation Reserves	18,082	13,518	4,564	34%
<b>Capital Assets:</b>				
Utility Plant	2,379,503	2,235,191	144,312	6%
Transportation Equipment	18,530	38,380	(19,850)	(52%)
Office Equipment	1,797	730	1,067	146%
Tools and Safety Devices	12,696	25,251	(12,555)	(50%)
Intangibles	3,355	3,355	0	0%
Total Capital Assets (Before W.I.P.)	2,415,881	2,302,907	112,974	5%
Less: Accumulated Depreciation/Amortization	(1,493,634)	(1,443,228)	(50,406)	3%
Capital Assets - Net (Before W.I.P.)	922,247	859,679	62,568	7%
Construction Work in Progress	2,718	64,184	(61,466)	(96%)
<b>Net Capital Assets</b>	<b>924,965</b>	<b>923,863</b>	<b>1,102</b>	<b>0%</b>
<b>Total Assets</b>	<b>1,151,871</b>	<b>1,138,081</b>	<b>13,790</b>	<b>1%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Sewer Utility Fund**

**Comparative Statements of Net Position**

	<b>June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	29,091	1,964	27,127	1,381%
Due to Other Utility Funds	17,773	16,157	1,616	10%
Due To Other Governments (Related Party)	50	45	5	11%
Due To Other Governments	167	240	(73)	(30%)
Accrued Vacation/Comp Time Pay	9,182	8,066	1,116	14%
Accrued Payroll & Payroll Liabilities	4,785	2,139	2,646	124%
<b>Total Current Liabilities</b>	<b>61,048</b>	<b>28,611</b>	<b>32,437</b>	<b>113%</b>
<b>(Payable From Current Assets)</b>				
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	5,620	5,377	243	5%
Advance From Other Utility Fund	13,895	48,614	(34,719)	(71%)
<b>Total Long-Term Liabilities</b>	<b>19,515</b>	<b>53,991</b>	<b>(34,476)</b>	<b>(64%)</b>
<b>Total Liabilities</b>	<b>80,563</b>	<b>82,602</b>	<b>(2,039)</b>	<b>(2%)</b>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	893,297	859,092	34,205	4%
Restricted for:				
Depreciation Reserves	18,082	23,345	(5,263)	(23%)
Unrestricted	159,929	182,869	(22,940)	(13%)
<b>Total Net Position</b>	<b>\$ 1,071,308</b>	<b>1,065,306</b>	<b>6,002</b>	<b>1%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 11**

**Sewer Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating Revenues:</b>				
Sewer Service	\$ 260,654	241,138	19,516	8%
Service Income (Related Party)	1,180	1,180	0	0%
<b>Total Operating Revenues</b>	<b>261,834</b>	<b>242,318</b>	<b>19,516</b>	<b>8%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	151,563	122,439	29,124	24%
Accounting and Collecting	7,923	6,550	1,373	21%
Administrative and General	60,941	56,447	4,494	8%
Transportation	5,787	3,415	2,372	69%
Depreciation	45,724	42,135	3,589	9%
Payroll Taxes	14,011	12,661	1,350	11%
<b>Total Operating Expenses</b>	<b>285,949</b>	<b>243,647</b>	<b>42,302</b>	<b>17%</b>
<b>Operating Loss</b>	<b>(24,115)</b>	<b>(1,329)</b>	<b>(22,786)</b>	<b>1715%</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	8,706	0	8,706	N/A
Customer Penalties	198	179	19	11%
Free Community Service (Related Party)	(5,720)	(5,280)	(440)	8%
Interest Expense (Gas Fund)	(1,954)	(2,743)	789	(29%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>1,230</b>	<b>(7,844)</b>	<b>9,074</b>	<b>(116%)</b>
<b>Change in Net Position Before Special Item and Extraordinary Item</b>	<b>(22,885)</b>	<b>(9,173)</b>	<b>(13,712)</b>	<b>149%</b>
<b>Special Item:</b>				
Hazard Mitigation Grant Program	1,588	0	1,588	N/A
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	36,472	0	36,472	N/A
<b>Change in Net Position After Special Item and Extraordinary Item</b>	<b>15,175</b>	<b>(9,173)</b>	<b>24,348</b>	<b>(265%)</b>
<b>Net Position Beginning of Year</b>	<b>1,056,133</b>	<b>1,065,306</b>	<b>(9,173)</b>	<b>(1%)</b>
<b>Net Position End of Year</b>	<b>\$ 1,071,308</b>	<b>1,056,133</b>	<b>15,175</b>	<b>1%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Sewer Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of</b>	<b>Percentage</b>
	<b>2014</b>	<b>2012</b>	<b>Change</b>	<b>of Change</b>
<b>Operating Revenues:</b>				
Sewer Service	\$ 260,654	234,922	25,732	11%
Service Income (Related Party)	1,180	1,180	0	0%
<b>Total Operating Revenues</b>	<b>261,834</b>	<b>236,102</b>	<b>25,732</b>	<b>11%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	151,563	113,853	37,710	33%
Accounting and Collecting	7,923	6,615	1,308	20%
Administrative and General	60,941	54,007	6,934	13%
Transportation	5,787	2,982	2,805	94%
Depreciation	45,724	40,535	5,189	13%
Payroll Taxes	14,011	11,843	2,168	18%
<b>Total Operating Expenses</b>	<b>285,949</b>	<b>229,835</b>	<b>56,114</b>	<b>24%</b>
<b>Operating Income (Loss)</b>	<b>(24,115)</b>	<b>6,267</b>	<b>(30,382)</b>	<b>(485%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	8,706	0	8,706	N/A
Customer Penalties	198	183	15	8%
Free Community Service (Related Party)	(5,720)	(5,280)	(440)	8%
Interest Expense (Gas Fund)	(1,954)	(3,504)	1,550	(44%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>1,230</b>	<b>(8,601)</b>	<b>9,831</b>	<b>(114%)</b>
<b>Change in Net Position Before Special Item and Extraordinary Item</b>	<b>(22,885)</b>	<b>(2,334)</b>	<b>(20,551)</b>	<b>881%</b>
<b>Special Item:</b>				
Hazard Mitigation Grant Program	1,588	0	1,588	N/A
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	36,472	0	36,472	N/A
<b>Changes in Net Position After Special Item and Extraordinary Item</b>	<b>15,175</b>	<b>(2,334)</b>	<b>17,509</b>	<b>(750%)</b>
<b>Net Position Beginning of Year</b>	<b>1,056,133</b>	<b>1,067,640</b>	<b>(11,507)</b>	<b>(1%)</b>
<b>Net Position End of Year</b>	<b>\$ 1,071,308</b>	<b>1,065,306</b>	<b>6,002</b>	<b>1%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Gas Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2014	2013		
<b><u>Assets</u></b>				
<b>Current Assets:</b>				
Cash	\$ 284,720	329,186	(44,466)	(14%)
Certificate of Deposit (Cash Equivalent)	100,000	0	100,000	N/A
Certificates of Deposit	1,950,000	2,125,000	(175,000)	(8%)
Accounts Receivable	80,938	64,784	16,154	25%
Due From Other Utility Funds	118,290	275,431	(157,141)	(57%)
Due From Other Governments (Related Party)	1,989	1,521	468	31%
Due From Other Governments	10,878	1,338	9,540	713%
Interest Receivable	8,313	8,220	93	1%
Note Receivable - Rock Rapids Development Corporation	6,000	6,000	0	0%
Note Receivable - Housing Development Incentive Program	0	10,000	(10,000)	(100%)
Inventory	44,571	38,856	5,715	15%
Prepaid Expenses	9,511	12,335	(2,824)	(23%)
<b>Total Current Assets</b>	<b>2,615,210</b>	<b>2,872,671</b>	<b>(257,461)</b>	<b>(9%)</b>
<b>Restricted Cash:</b>				
Customer Deposits	24,965	24,470	495	2%
<b>Capital Assets:</b>				
Land	13,863	13,863	0	0%
Utility Plant	1,109,432	1,090,919	18,513	2%
Transportation Equipment	89,949	89,949	0	0%
Office Equipment	8,176	8,176	0	0%
Tools and Safety Devices	73,097	73,097	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P)	1,306,507	1,287,994	18,513	1%
Less: Accumulated Depreciation/Amortization	(687,051)	(645,198)	(41,853)	6%
Capital Assets – Net (Before W.I.P)	619,456	642,796	(23,340)	(4%)
Construction Work in Progress	35,234	0	35,234	N/A
<b>Net Capital Assets</b>	<b>654,690</b>	<b>642,796</b>	<b>11,894</b>	<b>2%</b>

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Gas Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		<u>Amount of</u>	<u>Percentage</u>
	<u>2014</u>	<u>2013</u>		
			<u>Change</u>	<u>of Change</u>
<b>Other Assets:</b>				
Advances To Other Utility Funds	1,439,961	1,101,485	338,476	31%
Notes Receivable - Rock Rapids Development Corporation	191,553	197,553	(6,000)	(3%)
Note Receivable - Housing Development				
Incentive Program	59,717	59,717	0	0%
<b>Total Other Assets</b>	<u>1,691,231</u>	<u>1,358,755</u>	<u>332,476</u>	<u>24%</u>
<b>Total Assets</b>	<u>4,986,096</u>	<u>4,898,692</u>	<u>87,404</u>	<u>2%</u>
<b><u>Liabilities</u></b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	20,096	693	19,403	2,800%
Due To Other Utility Funds	0	100	(100)	(100%)
Due To Other Governments (Related Party)	27,280	18,723	8,557	46%
Due To Other Governments	366	998	(632)	(63%)
Accrued Vacation/Comp Time Pay	17,838	16,634	1,204	7%
Accrued Payroll & Payroll Liabilities	4,795	3,355	1,440	43%
Unearned Revenue	8,260	38,520	(30,260)	(79%)
<b>Total Current Liabilities</b>	<u>78,635</u>	<u>79,023</u>	<u>(388)</u>	<u>(0%)</u>
<b>(Payable From Current Assets)</b>				
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	24,965	24,470	495	2%
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	10,888	10,649	239	2%
<b>Total Liabilities</b>	<u>114,488</u>	<u>114,142</u>	<u>346</u>	<u>0%</u>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	654,690	642,796	11,894	2%
Unrestricted	4,216,918	4,141,754	75,164	2%
<b>Total Net Position</b>	<u>\$ 4,871,608</u>	<u>4,784,550</u>	<u>87,058</u>	<u>2%</u>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Gas Utility Fund**

**Comparative Statements of Net Position**

	<u>June 30,</u>		Amount of Change	Percentage of Change
	2014	2012		
<u>Assets</u>				
<b>Current Assets:</b>				
Cash	\$ 284,720	628,288	(343,568)	(55%)
Certificate of Deposit (Cash Equivalent)	100,000	0	100,000	N/A
Certificates of Deposit	1,950,000	1,900,000	50,000	3%
Accounts Receivable	80,938	86,098	(5,160)	(6%)
Due From Other Utility Funds	118,290	96,219	22,071	23%
Due From Other Governments (Related Party)	1,989	1,087	902	83%
Due From Other Governments	10,878	399	10,479	2,626%
Interest Receivable	8,313	6,325	1,988	31%
Note Receivable - Rock Rapids Development Corp.	6,000	6,000	0	0%
Inventory	44,571	38,543	6,028	16%
Prepaid Expenses	9,511	12,412	(2,901)	(23%)
<b>Total Current Assets</b>	<b>2,615,210</b>	<b>2,775,371</b>	<b>(160,161)</b>	<b>(6%)</b>
<b>Restricted Cash:</b>				
Customer Deposits	24,965	31,725	(6,760)	(21%)
<b>Capital Assets:</b>				
Land	13,863	13,863	0	0%
Utility Plant	1,109,432	1,073,144	36,288	3%
Transportation Equipment	89,949	101,000	(11,051)	(11%)
Office Equipment	8,176	7,596	580	8%
Tools and Safety Devices	73,097	73,097	0	0%
Intangibles	11,990	11,990	0	0%
Total Capital Assets (Before W.I.P.)	1,306,507	1,280,690	25,817	2%
Less: Accumulated Depreciation/Amortization	( 687,051)	(618,364)	(68,687)	11%
Capital Assets - Net (Before W.I.P.)	619,456	662,326	(42,870)	(6%)
Construction Work in Progress	35,234	0	35,234	N/A
<b>Net Capital Assets</b>	<b>654,690</b>	<b>662,326</b>	<b>(7,636)</b>	<b>(1%)</b>



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Gas Utility Fund**

**Comparative Statements of Net Position**

	<b>June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b>Other Assets:</b>				
Advances To Other Utility Funds	1,439,961	1,186,008	253,953	21%
Notes Receivable - Rock Rapids Development Corporation	191,553	197,553	(6,000)	(3%)
Note Receivable - Housing Development Incentive Program	59,717	29,717	30,000	101%
<b>Total Other Assets</b>	<b>1,691,231</b>	<b>1,413,278</b>	<b>277,953</b>	<b>20%</b>
<b>Total Assets</b>	<b>4,986,096</b>	<b>4,882,700</b>	<b>103,396</b>	<b>2%</b>
<b>Liabilities</b>				
<b>Current Liabilities (Payable From Current Assets):</b>				
Accounts Payable	20,096	1,001	19,095	1,908%
Due To Other Governments (Related Party)	27,280	18,698	8,582	46%
Due To Other Governments	366	1,462	(1,096)	(75%)
Accrued Vacation/Comp Time Pay	17,838	18,029	(191)	(1%)
Accrued Payroll & Payroll Liabilities	4,795	4,938	(143)	(3%)
Unearned Revenue	8,260	116,716	(108,456)	(93%)
<b>Total Current Liabilities (Payable From Current Assets)</b>	<b>78,635</b>	<b>160,844</b>	<b>(82,209)</b>	<b>(51%)</b>
<b>Liabilities Payable From Restricted Cash:</b>				
Customer Deposits	24,965	31,725	(6,760)	(21%)
<b>Long-Term Liabilities:</b>				
Accrued Sick Leave Pay	10,888	10,432	456	4%
<b>Total Liabilities</b>	<b>114,488</b>	<b>203,001</b>	<b>(88,513)</b>	<b>(44%)</b>
<b>Net Position</b>				
Net Investment in Capital Assets	654,690	662,326	(7,636)	(1%)
Unrestricted	4,216,918	4,017,373	199,545	5%
<b>Total Net Position</b>	<b>\$ 4,871,608</b>	<b>4,679,699</b>	<b>191,909</b>	<b>4%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 15**

**Gas Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2013</b>		
<b>Operating Revenues:</b>				
Residential Gas Sales	\$ 891,648	\$ 652,003	239,645	37%
Commercial Gas Sales	594,330	346,037	248,293	72%
Material and Service Sales	0	590	(590)	(100%)
Service Income	1,248	650	598	92%
Service Income (Related Party)	4,132	4,132	0	0%
<b>Total Operating Revenues</b>	<b>1,491,358</b>	<b>1,003,412</b>	<b>487,946</b>	<b>49%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	1,122,245	648,309	473,936	73%
Distribution Expense	104,365	74,136	30,229	41%
Accounting and Collecting	30,439	26,273	4,166	16%
Administrative and General	167,383	150,745	16,638	11%
Transportation	3,153	4,714	(1,561)	(33%)
Depreciation	41,853	41,040	813	2%
Payroll Taxes	24,445	24,436	9	0%
<b>Total Operating Expenses</b>	<b>1,493,883</b>	<b>969,653</b>	<b>524,230</b>	<b>54%</b>
<b>Operating Income (Loss)</b>	<b>(2,525)</b>	<b>33,759</b>	<b>(36,284)</b>	<b>(107%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Customer Penalties	1,121	912	209	23%
Interest Income	20,866	26,578	(5,712)	(21%)
Interest Income (Water, Sewer Funds)	67,290	55,752	11,538	21%
Construction Support Payment	3,048	3,176	(128)	(4%)
Free Community Service	(10,000)	(15,032)	5,032	(33%)
Interest Expense	(166)	(294)	128	(44%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>82,159</b>	<b>71,092</b>	<b>11,067</b>	<b>16%</b>
<b>Change in Net Position Before Extraordinary Item</b>	<b>79,634</b>	<b>104,851</b>	<b>(25,217)</b>	<b>(24%)</b>
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	7,424	0	7,424	N/A
<b>Change in Net Position After Extraordinary Item</b>	<b>87,058</b>	<b>104,851</b>	<b>(17,793)</b>	<b>(17%)</b>
<b>Net Position Beginning of Year</b>	<b>4,784,550</b>	<b>4,679,699</b>	<b>104,851</b>	<b>2%</b>
<b>Net Position End of Year</b>	<b>\$ 4,871,608</b>	<b>4,784,550</b>	<b>87,058</b>	<b>2%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule 16**

**Gas Utility Fund**

**Comparative Statements of Revenues, Expenses and Changes in Fund Net Position**

	<b>For the Fiscal Year Ended June 30,</b>		<b>Amount of Change</b>	<b>Percentage of Change</b>
	<b>2014</b>	<b>2012</b>		
<b>Operating Revenues:</b>				
Residential Gas Sales	\$ 891,648	591,359	300,289	51%
Commercial Gas Sales	594,330	292,786	301,544	103%
Material and Service Sales	0	1,899	(1,899)	(100%)
Service Income	1,248	870	378	43%
Service Income (Related Party)	4,132	4,132	0	0%
<b>Total Operating Revenues</b>	<b>1,491,358</b>	<b>891,046</b>	<b>600,312</b>	<b>67%</b>
<b>Operating Expenses:</b>				
Production/Processing Expense	1,122,245	550,119	572,126	104%
Distribution Expense	104,365	114,980	(10,615)	(9%)
Accounting and Collecting	30,439	25,923	4,516	17%
Administrative and General	167,383	153,679	13,704	9%
Transportation	3,153	5,038	(1,885)	(37%)
Depreciation	41,853	37,418	4,435	12%
Payroll Taxes	24,445	23,971	474	2%
<b>Total Operating Expenses</b>	<b>1,493,883</b>	<b>911,128</b>	<b>582,755</b>	<b>64%</b>
<b>Operating Loss</b>	<b>(2,525)</b>	<b>(20,082)</b>	<b>17,557</b>	<b>(87%)</b>
<b>Nonoperating Revenues (Expenses):</b>				
Gain on Disposal of Capital Assets	0	250	(250)	(100%)
Customer Penalties	1,121	823	298	36%
Gas Rate Case Settlement	0	3,304	(3,304)	(100%)
Interest Income	20,866	38,339	(17,473)	(46%)
Interest Income (Water, Sewer Funds)	67,290	37,036	30,254	82%
Miscellaneous Income	0	328	(328)	(100%)
Construction Support Payment	3,048	0	3,048	N/A
Free Community Service	(10,000)	0	(10,000)	N/A
Interest Expense	(166)	(265)	99	(37%)
<b>Net Nonoperating Revenues (Expenses)</b>	<b>82,159</b>	<b>79,815</b>	<b>2,344</b>	<b>3%</b>
<b>Change in Net Position Before Extraordinary Item</b>	<b>79,634</b>	<b>59,733</b>	<b>19,901</b>	<b>33%</b>
<b>Extraordinary Item:</b>				
FEMA Disaster Grant (Flooding)	7,424	0	7,424	N/A
<b>Change in Net Position After Extraordinary Item</b>	<b>87,058</b>	<b>59,733</b>	<b>27,325</b>	<b>46%</b>
<b>Net Position Beginning of Year</b>	<b>4,784,550</b>	<b>4,619,966</b>	<b>164,584</b>	<b>4%</b>
<b>Net Position End of Year</b>	<b>\$ 4,871,608</b>	<b>4,679,699</b>	<b>191,909</b>	<b>4%</b>

See Accompanying Independent Auditor's Report.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards**

# **DE NOBLE, AUSTIN & COMPANY PC**

## **Certified Public Accountants**

### **MEMBERS**

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### **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Members of the Utilities Board of Trustees:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities and each major fund of the Rock Rapids Municipal Utilities, a Component Unit of the City of Rock Rapids, Iowa, as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated January 27, 2015.

The report on the business type activities and each major proprietary (enterprise) fund was adverse due to management not recording the net other postemployment benefits (OPEB liability), the corresponding OPEB expense and the disclosures on the OPEB obligation in the Notes to Financial Statements. Accounting principles generally accepted in the United States of America require that the net OPEB liability be reported and expensed, which would increase liabilities and expenses and decrease net position of the business type activities and the major proprietary (enterprise) funds and that certain information/data be disclosed in the Notes to Financial Statements in regards to the OPEB. The amounts by which this departure would affect the liabilities, net position and expenses of the business type activities and the major proprietary (enterprise) funds and the failure to report the required OPEB disclosures are not reasonably determinable.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Rock Rapids Municipal Utilities' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Rock Rapids Municipal Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of



deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Rock Rapids Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in the Rock Rapids Municipal Utilities' internal control described in the accompanying Schedule of Findings as items 14-A, B, C, D and E to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items 14-F and G to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rock Rapids Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

#### Rock Rapids Municipal Utilities' Responses to Findings

The Rock Rapids Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Rock Rapids Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*De Noble, Austin & Company PC*  
De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants

January 27, 2015

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule of Findings**

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule of Findings**

**Fiscal Year Ended June 30, 2014**

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- 14-A      Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of assets and various aspects of the recordkeeping functions are not entirely separated among employees.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utilities should review its operating procedures to obtain the maximum internal control possible under the circumstances. The Utilities inability to eliminate segregation of duties issues reduces the effectiveness of the Utilities control environment and increases the risk of material errors, theft or fraud not being detected.

Response – We will continue to evaluate options to segregate duties to the extent possible within economic constraints.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel, by using city personnel and by utilizing administrative personnel/governing body members to provide additional control through review of financial transactions and reports

- 14-B      Financial Reporting – During the audit, we identified material amounts of assets, liabilities, net positions, revenues and expenses not recorded properly in the Utilities' financial statements and disclosures not properly being reported on in the Utilities' Notes to Financial Statements. Some of the assets and liabilities were not reconciled between the general ledger and the corresponding detailed subsidiary records. Additionally, there were a few improper bank reconciling items on several of the bank reconciliations, which resulted in improper bank reconciliation cash balances for those months. Adjustments/disclosure changes were subsequently made by the Utilities to properly include these amounts, including making sure subsidiary detail and general ledger control accounts, along with bank reconciliations, all reconciled properly, and disclosures in the financial statements and notes were all-inclusive and materially accurate, except as previously noted for the OPEB obligation.



**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule of Findings**

**Fiscal Year Ended June 30, 2014**

Recommendation – The Utilities should implement procedures and controls and conduct staff training to ensure all assets, liabilities, net positions, revenues, expenses and disclosures are identified, materially accurate, and included in the Utilities’ financial statements and notes. Detailed subsidiary records should be prepared for general ledger control accounts and reconciliations of these records should be prepared on a monthly basis by an independent person. Bank statement reconciliations need to be verified that only deposits and checks that have not properly cleared the bank and are an actual deposit/withdrawal are listed reconciling the bank statement to the proof of cash totals and the detailed general ledger cash accounts. Management should be monitoring procedures and controls and reviewing the financial records/reporting on a regular basis to help ensure the accuracy of the financial records/reporting.

Response – We have made several revisions that we believe are improvements during the fiscal year to our accounting procedures and controls.

Conclusion – Response accepted. Please continue to develop procedures and controls to improve financial reporting.

- 14-C Payroll Procedures – We noted several handwritten entries on the timecards, rather than a time being recorded by the time clock. Also, there were several instances identified where an employee’s time card and time sheet did not match as to the total time worked; in each situation, the employee was paid for the hours shown on the time sheet, not what was recorded by the time clock.

Recommendation – Any handwritten entries on the time cards should be kept to a minimum and should be approved and initialed by management. An employee’s time sheet needs to match the employee’s time card; any discrepancy between an employee’s time card and time sheet needs to be formally documented as to the reasoning and initialed as approved by management.

Response – We evaluate our payroll procedures for ways to improve controls and also gain efficiencies.

Conclusion – Response accepted. Please evaluate your payroll procedures and attempt to develop and begin implementing a strategy.

- 14-D Management Procedures – Based on findings during the audit, we identified that there appears to be a need for a higher level of oversight by management over developing internal control, compliance and antifraud procedures and monitoring existing procedures that are in place to ensure the procedures are enforced.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule of Findings**

**Fiscal Year Ended June 30, 2014**

Recommendation – Utilities management needs to evaluate policies and procedures to ensure effective internal control, compliance and antifraud procedures are in place and monitored on a regular basis. Utilities management needs to review audit findings identified and assess the level of risk associated with each finding and incorporate this assessed level of risk into its development/enforcement of policies and procedures.

Response – We will continue to work toward developing strategies to your recommendations.

Conclusion – Response accepted. Please review policies and procedures for methods to improve internal controls, compliance issues, and anti-fraud procedures.

- 14-E Expense Calculations – During the audit, we identified that sales tax was being overpaid to the State of Iowa due to using incorrect sales figures. We also believe the Utilities is interpreting improperly that an employee with family coverage is eligible to start getting reimbursed for medical expenses whenever an individual family member meets the lower \$500 deductible requirement.

Recommendation - The Utilities needs to revise its method for calculating sales tax which needs to be remitted to the State of Iowa. The Utilities needs to file amended quarterly sales tax forms to get a reimbursement of the overpaid sales taxes. The Utilities needs to meet with legal counsel and the health insurance provider's agent to determine what the proper interpretation is of the employee's partial deductible reimbursement fringe benefit plan. If it is determined a few employees with family coverage have been reimbursed an excess amount, the Utilities should seek to get restitution of the overpayment.

Response – We have already corrected the sales tax calculation issue and have sent in amended sales tax returns. We will seek assistance with determining the proper interpretation of the employees' health insurance deductible reimbursement fringe benefit plan.

Conclusion – Response accepted.

- 14-F Disbursement Procedures –We noted a couple instances where the only supporting documentation on file was a copy of a credit card slip (no detailed supporting receipt) or only the charge on the credit card statement (no credit card slip even available).

Recommendation – All disbursements need to be supported by an actual receipt or invoice that supports the disbursement in detail. The receipt or invoice needs to be

marked “paid” or otherwise cancelled upon payment to avoid duplicate payment and needs to be retained and filed as proof for the disbursement.

Response – We will stress to our staff the importance of retaining detailed support for all charges.

Conclusion – Response accepted. Please review documentation retention procedures.

- 14-G Authorized Bank Account Signer Card – The Utilities still has an individual who is no longer authorized to perform any banking transactions listed on an authorized bank account signers list.

Recommendation – The Utilities needs to establish procedures to ensure that individuals who are no longer authorized to conduct banking transactions are removed immediately from all authorized bank account signers lists.

Response – We will make sure all the banks we utilize have current authorized bank account signers lists and will work on establishing procedures to ensure this situation does not happen again in the future.

Conclusion – Response accepted.

#### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Schedule of Findings**

**Fiscal Year Ended June 30, 2014**

**Other Findings Related to Required Statutory Reporting:**

14-1      Certified Budget – The Rock Rapids Municipal Utilities is budgeted as a part of the City of Rock Rapids. Disbursements, included in the City’s budget for the Utilities, during the fiscal year ended June 30, 2014 exceeded the amount budgeted in the business type/enterprise activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The Utilities should have had the City amend the Utilities portion of the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if determined necessary.

Conclusion – Response accepted.

14-2      Questionable Expenses – Certain expenses we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented or the necessary documentation to support the expense was not present were noted. These expenses are detailed as follows:

We noted there was no support other than the credit card statement or that the only support for several credit card charges was a copy of a credit card slip and no detailed receipt/supporting documentation. The charges were mainly for meal reimbursements, a hotel stay, an airline flight, and a purchase of batteries.

We also noted several instances where the Utilities sponsored an event or team in the local newspaper or on a poster.

According to the opinion, it is possible for such expenses to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – All disbursements should be supported by an actual receipt/invoice that supports the expense in detail. Credit card charges must be supported by a receipt detailing what was purchased. Proper written documentation of public purpose should be on file if you choose to advertise or act as a sponsor.

Response – We will evaluate our disbursement procedures to make sure we retain proper supporting documentation. We will have proper documentation of public purpose when we help to sponsor events or teams in the future.

Conclusion – Response accepted.

- 14-3 Travel Expense – No expenses of Utilities money for travel expenses of spouses of Utilities officials or employees were noted. However, please see “Other Findings Related to Required Statutory Reporting: 14-2” for a possible related comment.
- 14-4 Business Transactions – No business transactions between the Utilities and Utilities officials, employees or family members of officials/employees were noted.
- 14-5 Bond Coverage - Surety bond coverage of Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- 14-6 Board Minutes – The Board minutes did not reflect that an employee hired as a regular part-time employee was to receive full time employee benefits. This treatment is contrary to the established policy in the personnel policy.

We noted three instances when the Board minutes were not published within 15 days of the meeting in accordance with Chapter 372.13(6) of the Code of Iowa.

Recommendation – Any transaction that differs from a Board established policy or resolution needs to be formally approved in the Board minutes.

Board minutes should be published within 15 days in accordance with the Iowa Code.

Response – We will comply with your recommendations in the future.

Conclusion – Response accepted.

- 14-7 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Utilities’ investment policy were noted.
- 14-8 Revenue Bonds/Notes – The Utilities did not have any revenue bonds or notes payable during the fiscal year ended June 30, 2014.

**Rock Rapids Municipal Utilities,  
A Component Unit of the City of Rock Rapids**

**Staff**

This audit was performed by:

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De Noble & Company PC  
d/b/a De Noble, Austin & Company PC  
Certified Public Accountants